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BUSINESS AND THE GOVERNMENT

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MODERN BUSINESS

VOLUME 24

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PREFACE

Our entrance into the world war gave to most of us an entirely new conception of government, its rights, its power, its duties. In the days of the Civil War Americans had reborn in them the spirit of patriotism and the recognition of the government as the dominating force in all affairs, private as well as public. In the present generation that spirit, while not dead, was sleeping.

With the coming of war came a reawakening to the worth of our country and a recognition of the prime necessity of governmental dominance in times of crisis. Men yielded cheerfully, even gladly, not only to burdensome taxes, but to daily interference by government officials in the personal affairs of family life. Now that the war is over and the readjustment period has made considerable progress, how far ought we to return to the pre-war life, to the pre-war spirit?

While we see how great may be the advantages even in times of peace of concentration of effort and unification of action, we have a vision as vivid as before of the inefficiency and unsatisfactory character of government routine and government officialdom. In this volume we have endeavored to show first the underlying principles of the relations of business to the government in all times, those of peace

and those of war. There is then given a brief account of some of the most striking changes brought about under war conditions and an intimation in some cases of the permanent effects to be expected from the changes in governmental relations.

The words spoken by Elihu Root at a dinner given by the Bar Association of New York to Charles Evans Hughes before we entered the war are to my mind as applicable to peace as to war.

"God knows, we need men now! We need men whose trust is not in words, in rhetoric, in fine phrases, or in noble expressions of sentiment, but men, genuine, sincere, devoted; men who think not merely of what they can get out of their country, but what they can give to their country; men who, upon the basis of plain, practical, and sensible hard work in the ordinary affairs of life, carry ever noble idealism and a sincere capacity for self-devotion."

JEREMIAH W. JENKS.

New York.

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BUSINESS AND THE GOVERNMENT

CHAPTER I

BUSINESS AND THE PUBLIC IN PARTNERSHIP

1. *The new problem of the after-war days.*—The war has given to most of us a new idea of Government and the part that it has to play in our business life. The mighty grasp that it has taken upon us all from sending our sons into the storm of the battle front with or against their wills—tho to their undying honor be it said almost always with their glad approval—to compelling a permit for the importation of a banana or the sale of an ounce of butter, has led us to question and halt between two opinions at every business move. We cheerfully revolutionized our attitude toward governmental activities in the face of the dire dangers that threatened our civilization. It is time that we attempt to picture to ourselves the normal relations of business and the Government as it will be under the new normality that will spring from the marriage of our new ideas, wrought out from our war experience, with our former conceptions held in the gentler times of peace.

Now as heretofore, of course, business is a type of

social activity, a dealing of man with man. In this volume the viewpoint is that of the business man looking upon himself as a citizen in the state and upon the state as a prominent, in many respects, even in times of peace, a dominant factor in determining his activities as citizen and as business man.

2. *Business is the foundation upon which civilization is built.*—Architecture, music, literature, morals, even religion, all have in greater or lesser degree a business basis essential to their development. Witness the need of organization and money-getting skill in secretaries and executive heads of all types of philanthropic and other kinds of social organizations. James Russell Lowell, in characterizing the value of a state as "the amount it has contributed to the knowledge, the moral energy, the intellectual happiness and the spiritual hope and consolation of mankind," nevertheless spoke of material success as good, as the necessary preliminary to these better things. The whole business game, too, is a form of social action and reaction, an intertwining of forces, of wills and of conditions out of which grows, thru the likeness of men and the community of their interests, an orderly business society and normal social development. It is the basis of civilization.

3. *Business men as members of organized government.*—Owing to the normal differences of needs, opinions and judgments of the different individuals in a community, men have necessarily organized themselves for the purpose of regulating their social activi-

ties for the good of the whole. *The State is all of us organized for the purpose of ruling.* "Scientific Anarchists" who are disposed to rebel against the checks put upon individual activities by the force of government believe that merely a voluntary organization for specific purposes is sufficient to satisfy social needs. They believe that the ideal state needs no other than voluntary groups like Sunday schools, engineering societies or private business firms to promote business, recreation and all other types of social activities. But recognizing, as we must, the hampering influence which actual governments exert at times upon the legitimate and even noble aspirations of the good, we must likewise recognize the presence of the evil doers among us. We must note also that even the very good have differing views and that the best men are at times driven by their consciences into unyielding stubbornness, so that if society is to be orderly, and if the community as a whole is to move toward practical accomplishment, force must needs at times be employed. There must then be this organization for purposes of ruling; and the business man is constantly coming into contact with the organized community either in town, or state, or nation.

4. *Business men are guided by,and themselves may guide,the state.*—The organized community in times of peace affects the business man in various ways. Sometimes it assists him directly, as when, thru the establishment of lighthouses, the Government enables him to guide his ships safely thru tortuous channels

or makes known to him the existence of hidden reefs.

Sometimes the state regulates his ways of doing business; as when the Federal Government controls the acts of our railways or when the Public Service Commissions of our different states decide upon the accommodations that must be furnished by street railway companies to their patrons.

Sometimes the state itself appears as the owner and manager of certain classes of business, as when the United States Post Office Department manages an important phase of the transportation business, or when certain cities manufacture and sell to the inhabitants gas or electricity, or provide their citizens with their water supply. In all these and in many other ways all of us in our organized capacity as ruling power are assisting, controlling, directing or managing each of us in our unorganized capacity as individuals. In the instances cited the state is directly affecting the business man in his business life. Likewise thru the police department or health departments, it controls his personal acts in other ways and in case of need thru the military power—necessarily placed in the hands of the state—it takes away temporarily his personal liberty, compelling him to sacrifice his business for the sake of the community or even to yield up his life for the common good.

The business man, however, is not merely passive and acted upon by his fellow citizens. He is himself under all forms of government, especially in a republic, an active member of the state, and as such he helps

to direct its work. Just criticism has been leveled at business men on account of the little attention that they have often heretofore paid to their privileges and their duties as citizens. The experiences of the war, if rightly heeded will put into our citizens a new public spirit that will impel more of our most competent citizens to put their business gifts at the disposal of the government and to insist that the government do its work in more business-like ways.

5. *The government; the committee or agent of the state.*—Whenever any group of individuals desires to take common action, it is usual for it to select a few to do its active work. Every business corporation, every church, every literary or scientific association, every social club, is organized with its board of directors, its officers, its chief executive, to put into effect the determinations of its members. Likewise the state—society as a whole organized for the purpose of ruling—has its grand committee to formulate and put into effect its will. That committee we call the government. The special subcommittee that formulates its rules of action is the legislature—to a slight extent, the judiciary—while the executive puts these regulations into effect. Our Government is thus a definite group of men who have a task to perform for us and who can be held strictly responsible to us.

There is no way for the state effectively to express its will save thru the Government. The individual members of the state by public addresses, newspapers and books may speak their individual wills, but in

their organized capacity they can act only thru their government. When Great Britain makes a loan, a small committee of its executives with the approval, given, usually in most general terms, by its parliament, makes the bargains and issues the bonds. When the President of the United States in his official capacity deals with the Emperor of Japan acting officially, the act is that of all of us, citizens of the United States, treating with all of the citizens of Japan, tho thousands or even millions of individuals in both countries may be protesting not only most bitterly in their hearts but vociferously with their tongues.

The government in action is no lofty abstraction. It is a few human beings, usually men of capacity. But if it be one dominating will like Napoleon or the mad Nero, its acts are still the acts of the state and all the citizens must share the responsibility.

6. *Influence of the personality of government officials.*—Too often individual citizens have spoken of the Government as if it were some far off, superior, abstract being which does not come into direct contact with ordinary individuals. The acts of war have brought the Government into closer touch with most of us. We see that it is made up of men with whom we deal personally and it makes a great difference in the acts for which we are all responsible whether a Buchanan or a Lincoln, a Jackson or a Polk, a Roosevelt or a Wilson, a Jefferson or a John Adams occupies the Presidential chair. Possibly of even greater significance in times of peace than the person-

ality of the President is the local town official. Is he a progressive, liberal-minded man or a stingy ignoramus? It is the will of such a one that determines the qualifications and the salary of the country school teacher and that is of prime importance to the ordinary citizen. In the one case the character and development of his children may be at stake; in the other it may be only an unnoticeable change in the form of amount of his taxes. In any event, whatever the grade of the official, he stands for us; and we as business men may determine whether or not he represents our wills and our wishes and whether he is a man of the type to represent us. *The business man needs therefore to study his relations with his government as a practical human study.*

7. *Conditions under which the government must act.*—Few people who have not taken an active part in government or who have not been thrown into practical contact with government officials, have a clear conception of the conditions under which these officials must do their work. This ignorance often leads to most unjust criticism. To meet the conditions suggested by such criticism at times would require supermen, not human beings.

Every business man knows the value of time. The head of any large corporation must count his minutes. The time of interviews with subordinates must be carefully allotted in proportion to the importance of the decisions to be reached; the time for seeing visitors must be restricted. But consider the circumstances

of the President of the United States even in times of peace. Most presidents have felt that it was desirable to see practically every visitor who wished to call, altho in many cases the only business was to satisfy personal curiosity. Members of the cabinet or persons not belonging to the government whose views are required or those who have most important dealings with the government must be given sufficient time—possibly several interviews. Arrangements must be made for such individuals, or for representative delegations dealing with important matters, to have time for discussion. Hundreds, even thousands, may come in one day. The President's secretaries, learning in advance the people and their business must allot this precious time—a thoro interview for some, a few minutes' conversation with another, time for a one or two-minute decision with a third, and for a throng who have called "merely to pay their respects," an opportunity to walk past in line and in a whirling second to shake the President's hand and look into his face.

Realizing how enormous is the burden of responsibility when a wrong decision may involve the country in war, or the approval of a wrong internal policy may change the entire structure of the Government for good or ill, the business man may see how imperative it is that the President's work be well organized and that he surround himself with counsellors of the most practical, wisest type, both in his cabinet and in his personal secretaries and aids, for they must in prac-

tice make many decisions for which he must bear the responsibility.

Again, when one notes the great mass of correspondence that must be handled by the President's office, or that of any of the heads of departments, it is seen that these higher officials like the heads of great business corporations can give attention only to the matters of highest import. The largest part of the work must be left to subordinates; and even on matters requiring action by the highest officials, the burden of detail in gathering information and framing replies, even when great events are at stake, often falls upon subordinates.

Most citizens do not realize these conditions. The business man should realize them and in consequence should see to it that there is no begrudging higher officials every assistance needed in order to lighten their tasks; nor, on the other hand, should he spare any effort to see that only those with executive qualifications and sound judgment on business as well as on political affairs, occupy the higher positions. *A clear conception of government both in spirit and working method, if thoroly instilled into the minds of the business men of the country, would sound the knell of the demagog's hopes and end his pernicious activities.*

8. *Legislatures.*—The business community finds itself under restrictions built around it by laws. In consequence the methods of law making as well as the character of the lawmakers should receive atten-

tion. Doubtless the character of our legislators and our legislative methods have greatly improved, but these are matters of the gravest significance and our lawmakers are rarely experts. We would not think of intrusting a banking business to one not trained as a banker, or the erection of a great building to one not trained as an architect; but the making of tax laws—a process touching the fortunes and the welfare of millions, a process more complicated in its possibilities for good or for evil to a community than the erection of many buildings or the failure of dozens of banks—we do in part intrust to men utterly untrained in the principles of taxation. Of course, the leading men on the important committees of Congress have acquired some training by experience, but this differs materially from scientific training.

Thru methods of formal procedure largely judicial in nature the British Parliament has succeeded in largely uprooting corruption in legislation.

With us investigations that have appealed to the popular sense of honor and to public sentiment thereby aroused have accomplished much the same end as regards corruption. But these means still leave very much to be desired from the viewpoint of thoro, scientific investigation and decision.

The whole matter of legislation in business affairs is felt by many business men to be an uncertain, costly procedure from which they can expect little in the way of benefit or of certain security against harm.

9. *The executive and the judiciary.*—The work of the executive whether president, governor or mayor, has usually affected the business man in a much less direct way, except so far as these executives determine legislation. Beyond that, their influence upon business has been largely seen in making appointments, in accepting information which might determine the interpretations of legislative action, the method of the enforcement of the laws, or even in the granting of privileges, the awarding of contracts, the doing of business in connection with routine work.

Perhaps the chief criticism of the higher executives has come from the fact that they have failed to give protection to business interests, especially those abroad, or to make appointments of officials who would conduct the government's work, where it affected business, by methods that were reasonably economical and efficient. In most of these lines, especially in connection with municipal government, there has been great improvement of late years, tho much remains to be desired. The chief remedy for these evils is to divorce politics from business and see to it that appointments are made thru merit rather than as a party reward. And, of course, the business men can see to it that the executives get sound information in business questions whenever they so desire. The evils of inefficiency were in many departments greatly increased during the war tho probably the cause was primarily the enormous and sudden increase of work and the consequent use of inexperienced officials

rather than either corruption or partisan influence.

In the interpretation of the law by the judges, it would, of course, be improper for the business man to attempt to influence the opinion of the judges except by seeing to it that suitable and accurate information is furnished, whenever opportunity offers, either in the presentation of cases before the court or thru the public press. Judges wish to form their opinions accurately upon evidence and to base their decisions upon law; but aside from the technical evidence there is always a mass of information accessible to the public, and to the judges as part of the public. This more or less unconsciously shapes the opinions of every man —and the judges are likewise thus affected.

10. *Nature of public opinion.*—The opinion of the public usually determines the acts of legislators and of executives, if that opinion is decided and clearly expressed. We are all of us largely influenced, either consciously or unconsciously, by those with whom we come in contact. Very many of the discussions regarding public opinion overlook the fact that the environment of most individuals is distinctly limited. Each man numbers among his friends and acquaintances only a few; and his opinions, his judgment, his course in life are determined chiefly by the judgment of those few. Here and there the opinion of a teamster may be affected by the word of a distinguished lawyer, but only rarely and indirectly. The opinion of the teamster is likely to be that of other teamsters, those who come under similar influences

and have similar associations. Likewise, the judgment of the housemaid as regards clothing, social proprieties, the nature of the service, is the public opinion of the housemaid's society, not that of the mistress. And when it comes to industrial action determined by legislators, the opinions of each member of the great voting groups is likely to be swayed in the same way as that of his fellows in his own social and business class.

Political leaders are not mistaken in their methods of dealing with different classes of individuals. They work upon trade unions thru trade union officials, upon members of certain nationalities, Italian, German, Bohemian, thru influential individuals of those nationalities, especially thru those who come into personal contact as members of the class that it is desired to reach. *Public opinion is not one opinion; it is a kind of composite picture of various types of opinion built up from the conversations and influences of members of each one of the separate social groups.*

11. *Influence of public opinion on business questions.*—How influential this public opinion is may often be seen in connection with matters affecting the business welfare of the community. If prices are rising and the cost of living is rapidly increasing, most classes in the community are affected and there is likely to rise in a short time a demand for investigating commissions, for direct action on the part of mayors and governors, for legislative acts to be passed by state legislatures or by Congress. In most cases

such demands are made, as can readily be seen by noting the nature of the bills introduced, without any fundamental knowledge of business principles. What seems at first hand to be a cause of the high prices such as high freight rates or profits of middlemen, are taken up, attacked, discussed and possibly legislative action is taken, even tho there has been no wrong or unbusinesslike action on the part of any of the parties mentioned, and altho the legislative action can have no good effect. The action has been a reflection of the unenlightened opinion of untrained groups. It should be always remembered that *ignorance plus ignorance does not equal wisdom.*

On the other hand this same public opinion strengthened by a feeling of justice on the part of employers of labor often leads to increases in wages, properly earned and greatly needed. At times, however, the pressure of this public opinion acting thru legislatures, possibly even upon courts, brings broadest injustice. Still again, such opinion often has a decided influence upon the outcome of strikes or other disputes between great classes in the community, the general sentiment in the main being probably right, altho frequently, in minor matters, mistaken.

12. *The business man's influence on public opinion.* —Probably nine-tenths of the questions that affect our social life most intimately have their origin in business. All matters of wages, of prices, of freight rates—everything that has to do with our material life touches business. The business man, therefore,

if he is broad-minded, intelligent, conscientious, is really the authority that should be consulted. He is the man who should make an effort to give to the public the information which he himself possesses, and to give it in such a way that it may have due influence in shaping public questions. For example, the action of many of the railroads in printing at their own expense in the public press definite statements of fact and positive conclusions regarding matters pending before legislatures, is only to be commended, as long as they give the facts accurately and fully. An active part in public matters by business men will prove to be of the greatest value to business itself and from that viewpoint alone it is justified.

On the other hand, government officials are usually desirous of securing accurate information, of making right judgments on public matters. They, therefore, welcome any information given either directly or thru the press, so long as that information is accurate and fair.

We should realize that by far the largest part of the time of most men is devoted to business, i. e., to getting a living and supporting those dependent upon them. While we should always keep in the foreground the development of our higher interests, intellectual, moral, religious, we should never lose sight of the fact that by the great majority of the people chief attention must be given to earning a living and conducting business affairs. Under the stress of war we have seen thousands of able business men from

patriotic motives gladly sacrifice their personal interests to serve loyally the government in its time of need. But even in time of peace it seems clear that one of the chief duties, if not the chief duty of the business man, aside from conducting fairly his own daily work, is to keep himself informed on all questions that vitally affect the public interest thru politics, and to exert his influence in politics by all fair means.

13. *Social and ethical questions.*—A very considerable part, however, of our influence upon society is exerted directly upon the public and not indirectly thru the politicians. Strikes are more likely to be settled, not by legislation or political action, but by both the strikers and their employers feeling that the interests of the public must not be forgotten in their private conflicts. Honesty and fair dealing in merchandising, while affected by the criminal law, is still more affected by the fact that the reputation for unfair dealing is likely to prove unprofitable in business. The social condemnation of one's associates has far more to do with moral, upright living than any acts of the legislature, however severe on the one hand or encouraging on the other. We should see to it then that on all questions of business that are matters of right and wrong the business man not only forms for himself a sound judgment, but that he gives vigorous expression to that judgment thru associations to which he may belong, thru the press, thru conversation with his fellows, until, in fact, his shaping of public opinion

creates and maintains the highest moral and ethical standards.

REVIEW

In what departments of business does a man most need an intimate knowledge of human nature in order to insure success?

Think out carefully the number of people of all classes who take any part in the producing of a silk necktie, from the beginning of the production of the raw silk to its purchase by the wearer.

What are the forces that bring these various groups of producers into such relations that the finished necktie is the result? Consider carefully the various places and ways in which any government affects the acts of any of these producers.

Distinguish clearly the meanings of the words: society, state and government.

How far and in what ways is it right for a private citizen to attempt to influence the opinion of judges? Of the President of the United States?

How far ought members of the legislature to yield their judgments regarding action on any public measure to the wishes of their constituents?

CHAPTER II

TAXATION AND BUSINESS

1. *The funds of government.*—In times of peace as well as in war the work of Government must be carried on by men and women. These men and women must be supported. To do its business the Government must have buildings, apparatus, machinery, transportation, laws. It must at times have legal advice. It must employ examining physicians; it must engage scientific experts; it must supervise costly experiments. It must make huge expenditures to meet its needs. It must respond to insistent demands to promote the public welfare. For the carrying on of its work, therefore, the Government must be provided with funds. Inasmuch as every citizen in the community has a share in the benefits of government and inasmuch as all governments are of necessity in a position to enforce their will, it has become customary to exact contributions from their citizens. In earlier, cruder times these contributions took the form of gifts to the rulers, and these gradually became mere matters of custom presented only when asked for and assuming the form desired by the ruler. From this system of enforced gifts have gradually grown up the various types and methods of taxation.

2. *Share in distribution.*—The annual cost of government in the United States, in times before the war, was about $4,000,000,000, tho not all this sum was raised from taxation. Part was secured by the sale of public lands, licenses, the Post Office, conduct of public utility corporations and similar activities. We need, therefore, to recognize the difference between income from taxation and from other entirely different sources. Among the highly civilized nations, taxes are high, but the returns from them in the way of protection, care of property, prevention from injury to the person, administration of justice and other conveniences, are correspondingly great.

It was reported in 1914 by the Interstate Commerce Commission that the railroads of the United States which have an annual income of $1,000,000 or more, paid taxes which averaged $53 more per mile than in the previous year. Everywhere the burdens of government increase with the modern demand for greater social service. What the average percentage of taxes to business incomes may be it is impossible to estimate accurately, but it is not unusual for individuals and some business concerns even in peace times to pay as much as 10 per cent of their income for the support of government. In war times they pay vastly more. The California Tax Commission in 1906 estimated the percentage of taxes to the true value of farm property at 1.14 per cent; the percentage of taxes to gross returns at 6.88 per cent and the percentage to net returns including the farmer's

compensation at 9.88 per cent. In contrast, the commission showed that in the manufacturing industries of the state the percentage of taxes to net product was a little more than two per cent. High as some of these figures seem, they are much less than those found in other countries. In India, for example, in rural districts it used to be common for the farmer to be compelled to give one half or even more of his net crop (i. e., crop less cost of production) for government use. Sometimes 20 per cent of the gross crop was taken as an equivalent. Under the British administration the general policy of taking about 25 per cent of the net crop as a tax has been fairly well established. As we know, under the pressure of the world war, some governments took even as high as 80 per cent of the excess profits gained in the munitions plants.

These figures show inequalities of taxation. But they are cited here primarily to emphasize the point that the payment of taxes is an important element in the cost of doing business. Taxes constitute one of the shares of the product which the state takes from all. Every one pays taxes in some way, and since the governments by their methods may either stimulate or discourage, or even destroy business and industry, one sees that the importance of the tax problem can scarcely be overestimated.

The absolute necessity of the Government securing its income, the vital fact that the Government affects for good or ill practically every activity of all citizens,

and the constructive or destructive influences of taxing methods emphasize the gross injustice of tax dodging, the duty of paying just taxes willingly, and the imperative need of intelligent study of tax problems. The State's income must be secured. If thru cheating I evade paying my share, my neighbor who is honest must pay more than his proper part, and morally speaking, I might as well pick his pocket.

3. *Nature of taxation.*—Professor Bastable in his "Public Finance" defines a tax as "a compulsory contribution of the wealth of a person, or body of persons, for the service of public powers." While a tax may be levied upon property, it always falls upon a person who must ultimately pay for it. The power of shifting the burden of taxation from the shoulders of the taxpayer upon others makes it extremely difficult in many instances to determine what is the best form of taxation. The impairing of national capital by wrongly placed taxation may ultimately result in the breakdown of national efficiency. The real source of the payment of taxes is income. The levying of any taxes out of proportion to the income of any group is a great error, leading either to fraud or to business ruin.

When, under the general property tax, the owner of a bond of which the rate of interest is four per cent, must yield one half this income in taxation, it is evident that gross injustice is done. The income of a widow or child taxed to this extent is unduly and wrongfully burdened.

It should always be made clear in justification of any tax, that the public good secured by the tax overbalances the hardships of the individuals who pay it. "If taxation requires restriction of the necessary expenditure of the citizen and a lowering of his standard of living, it is certain that the money had best be left in his hands. When aggregate enjoyment is secured at the expense of the industrial efficiency of the unit, it needs no argument to show that such taxation is unwise."

4. *Canons of taxation.*—Adam Smith, the father of modern political economy, in his "Wealth of Nations," written about 1776, laid down rules of taxation which have been generally accepted. They were: 1. Equality. "The subjects of every state ought to contribute toward the support of government as nearly as possible in proportion to their respective abilities." 2. Certainty. "A tax ought to be certain and not arbitrary." 3. Convenience. "Every tax ought to be levied at the time and in the manner most likely to be convenient for the contributor to pay it." 4. Economy. "Every tax ought to be so contrived as both to take as little and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state."

To these established canons others have been added. For example, Bastable says, "Taxation should be productive, . . . taxation should be justly distributed . . . and a tax system should be elastic."

5. *Incidence of taxes, or who pays taxes?*—It has already been suggested that the man who first pays the tax does not always bear the burden. For example, a tax levied upon a building may be shifted by the owner upon the landlord, who rents it. He, in turn, may shift it upon his tenant and the tenant in turn may shift it, if he is a merchant, upon the purchasers of his goods.

Three conditions may be presented to show how the payment of taxes may be made by different groups.

1. If an industry has reached a certain point in its development when the advantages of a large scale organization have been secured, the manufacture of the product will continue at substantially a constant cost as, for example, in many branches of the textile industry. The selling price of textiles is ordinarily the cost of production plus a small margin of profit. Competition holds the returns at about this point, and under present conditions a tax levied on that industry would be added to the cost of the goods and made a part of the price. Therefore, the consumer would pay the tax in his prices. If the demand should fall off, it might well be, that to get rid of a temporary oversupply, the tax would need to be assumed by the producer thru a lowering of the price, altho this might result in the forcing out of business of the least successful producer.

2. To a large group of commodities, especially the products of the farm, forest and mine, the so-called "law of diminishing returns" applies; that is, increas-

ing supplies of such articles beyond a standard quantity are possible only under a more than proportionately increased cost. A land tax under such circumstances becomes part of the cost of the product to the man at the margin of cultivation; that is, the man who can just survive economically and carry the burden of the tax. It is the cost of production, including the tax, by this man which really marks the limit of the market price. Those whose land is more productive or who for other reasons produce more cheaply will naturally make a larger profit as they will sell at the same price. If, thru a lessened demand, this marginal producer at the greatest cost is called upon to assume the tax thru lowering his price, he may be forced to sell out. The tax might thus fall upon the producer who takes his place, and thus again be passed on to the consumer.

3. At the other extreme are the "industries of increasing returns" in which an added amount of capital will frequently give a more than proportionate return in product. These industries, as, for example, street railways, electric lighting plants or manufacture of patented articles, are monopolistic. If his business is conducted purely for profit, the owner will fix the price at the point where he will get greatest net returns. An increase in price will weaken the demand; a decrease in price will strengthen the demand. Experiment will show the point at which it is unwise to lower the price further because the demand does not increase enough to add to the total profit. If at this

point a tax is levied it increases the price and reduces the demand. Under these conditions the monopolists may find it most profitable to assume part or all of the tax so as not to decrease the demand too much.

A monopolist controlling the salt supply of a country, a necessity, could probably shift the tax upon the consumer, since the demand is established and substantially constant. The owner of a monopoly of a luxury would find it more difficult to shift the tax since the increased price would more readily check the demand.

In cases where the price is fixed by custom or by convenience in making change, as is a street car fare, the monopolists would find it extremely difficult to shift the tax and must therefore bear the burden.

From these examples it is seen that the strength of business groups, fixed largely by social conditions, determines the final payment of the taxes.

6. *Forms of taxes.*—Taxes are usually classified as direct and indirect. The direct tax is paid by the person upon whom it is levied. The indirect tax is levied on commodities or persons producing commodities with the expectation that the owners of commodities will be able to shift the burden to someone else.

The direct form of tax has some advantages. It is easier for the tax officials to estimate the revenue and to provide for the collection. But, direct taxes are generally unpopular. They frequently encourage fraud. Indirect taxes are popular, since the burden is concealed. The indirect taxes, however,

are often difficult to collect; they lead to government extravagance in expenditures because the income is uncertain, and they often lay a heavy burden upon industry. The most common direct taxes are the general property tax, the income tax, the inheritance tax and the excess profits tax. The most typical forms of indirect taxes are the tariff and excise taxes.

7. *General property tax.*—In earlier times when the chief forms of property were land and personal property in the forms of animals, tools, weapons and household goods, a general property tax could be levied with a reasonable degree of certainty that there would not be grave injustice done in the inequality of tax burdens. Ability to pay would be measured reasonably well by the values of the property thus estimated. Since, however, many forms of wealth have become intangible in the forms of stocks and bonds, mortgages and other legal claims, it is practically impossible to know the amount of any man's wealth and thus to assess it fairly. Moreover, few assessors can have any fair judgment of the value of many such properties. Practically, all tax authorities of the present day condemn the general property tax.

8. *Modified forms.*—To avoid some of the difficulties, certain modifications have been introduced; for example, mortgages are taxed when they are registered; public service corporations are taxed upon their gross earnings; corporations are taxed upon their stocks and bonds.

From all these various examples it becomes evident

that the general property tax has been largely discredited, and that there is need of a reorganization of the taxing system in most of our states. A suggestion frequently made is that the government exempt entirely personal property and that there be a combination of income tax and an inheritance tax with a tax on land or land values for local revenue.

9. *Federal income tax.*—It is generally believed that by taxing incomes we can approach a fair degree of equality in taxation, altho there is usually strenuous objection in this country to the income tax as being too inquisitorial. There can be no question that the income tax is, for a considerable period after its introduction into any country, very difficult to administer. It is extremely puzzling to determine the net income from the gross income.

Usually certain distinctions are made regarding the character of the incomes, describing them as salaried incomes, profits and dividends, or, as in England, "earned and unearned incomes." Generally also an exemption is made of a minimum income which relieves a large proportion of the people from the payment of the tax.

During the Civil War, the United States Government levied an income tax of three per cent on all incomes over $800. Later, modifications were made in the exemption features and a graduated plan was devised for larger incomes. This tax was not successful. Our present basic law of September 6, 1916, following the model of the original law of October,

1913, has a normal tax of two per cent on all incomes in excess of $3,000 for single and $4,000 for married persons, also an additional tax of from one to 13 per cent upon any excess of income above $20,000. October 3, 1917, a sweeping amendment to the act, called the War Income Tax reduced the exemptions to $1,000 and $2,000 and levied an additional rate of two per cent on all net incomes. This makes a two per cent rate on incomes from $1,000 or $2,000 up to $3,000 or $4,000. It also levied a further additional tax of one per cent on all incomes above $5,000 rising on an increasing scale to a maximum of 50 per cent, thus giving a total maximum on incomes above $2,000,000 of 63 per cent. In 1918 was passed a still further amendment originally designed to raise some $2,400,000,000 to meet war needs but after the signing of the armistice somewhat modified so as to reduce the yield. In this act the normal rate for incomes under $4,000 is six per cent. For larger incomes the "normal" rate is 12 per cent with a graduated surtax on incomes from $5,000 to $1,000,000 rising from one per cent to 65 per cent giving a maximum rate of 77 per cent.

10. *Other income taxes.*—Several of the states of the Union also have certain types of income tax. Probably England has the most carefully worked out income tax, altho most countries of Europe have an income tax in some form. In England the tax dates back to 1435. Since 1916, all incomes above £130 ($650) pay a tax. The rates vary directly from a

minimum in 1918 of 2 s 3 d per £ sterling on earned incomes and 3 s on unearned incomes to 5 s per pound sterling on both classes of income on sums above £3,000. This gives a rate of about 6.2 per cent to 25 per cent. In addition, there is a supertax on sums above £2,500 running to 3 s 6 d per £ on sums over £10,000—about 42 per cent. As far as possible the principle of collection at the source of revenue is used in collecting the tax.

11. *Corporation taxes.*—In many of the states a tax on corporations was earlier levied only under the general property tax, or in the form of fees on incorporation. In 1868 Pennsylvania levied a tax of 3 per cent on net earnings. Since then several states have levied special taxes sometimes on earnings, net or gross, sometimes on capital stock, on franchise, etc.

In 1909 the Payne Aldrich Act levied a special excise tax on corporations. Since 1913 corporations have been taxed under the income tax law. In 1916 the rate was fixed at 2 per cent of the income with an additional 10 per cent on undistributed surplus. In 1917 the rate was made 6 per cent. In 1919 the rate was fixed at 12 per cent.

12. *Excess profits.*—Owing to the special changes wrought in business by the war, and the belief that many corporations had won undue profits from the war a special tax was levied upon excess profits based on profits before the war in 1911, 1912 and 1913. In 1917 the law fixed the rates on a sliding scale proportioned to the percentages of net income. In ad-

dition to the regular corporation tax an additional levy was made from 20 per cent as a minimum on a net income in excess of deductions and not in excess of 15 per cent of the invested capital, up to 60 per cent as a maximum on the net income in excess of 33 per cent of the invested capital. In 1919 the rate was still further increased on a new basis of reckoning.

In Great Britain also an excess profits duty has been levied as a war measure, the rate running as high as a maximum of 80 per cent of the so-called excess profits over a rate based on the pre-war period.

13. *Other countries.*—Most of the English colonies and other countries such as France, Italy, Sweden, Switzerland, Japan, Holland, Denmark, have graduated income taxes. After the outbreak of the war supertaxes were added and in a few cases, as South Africa, Canada, Denmark, France, Norway, excess profits and war profits taxes are also found.

14. *Inheritance tax.*—The inheritance tax, called death duties in England, is rapidly becoming one of the most important forms of taxation in the United States as elsewhere. The advisability of the state taxing inheritance is based upon (1) the fundamental right to curtail or control bequests, (2) the possible wisdom of checking the growth from generation to generation of large estates and (3) the fact that the tax is easy to collect.

Usually the rate of the inheritance tax increases inversely to the nearness of relationship of the heir

to the deceased. Cousins, for example, pay a higher rate than children, who are often exempt. Again, the holders of small estates are usually exempt from taxation. In many states the exemption is as high as $10,000, in New York, $5,000 for the near kin, $1,000 for others. The rates of taxation vary. The average is between 15 per cent and 20 per cent for large inheritances, a smaller percentage for small amounts. As a legacy increases in amount, the tax usually increases progressively. In New York State the rate is one per cent on $5,000, increasing until it reaches from four to eight per cent on all inheritances of $1,000,000 or more. In other states it reaches 25 per cent or even 30 per cent. So heavy a tax encourages the distribution of a large estate before the death of the owner. Moreover, so great a burden encourages owners to fix their legal residence in states where the burden is lighter. Many ingenious devices on the principle of the holding company have been worked out to avoid such heavy legal exactions. As a war measure in 1916 the Federal Government levied a tax on the transfer of the net estate of the decedent (not on the heirs) at a rate graduated, not at all on nearness of kin of heir, but solely on value of estate. The rates ran from one per cent on estates not exceeding $50,000 to 10 per cent on estates above $5,000,000. In 1917 the rates were increased one-half per cent on the lowest rate to 10 per cent additional on estates above $10,000,000. For 1919 the

plan was changed to a tax upon the amounts received by the separate beneficiaries and the rates run from one per cent to 25 per cent.

15. *Justice and taxation.*—It is evident that nothing more than rough justice can be attained in any scheme of taxation. On account of the unavoidable inequalities of assessment and the fact that incomes vary amazingly with different types of property, the general property tax clearly ought to be abolished. Many questions naturally arise when one attempts to furnish a substitute. Ought taxation to be used as a means of modifying social conditions; for example, to limit in any way the growth of large fortunes? Is ability to pay proportional to the amount of the income? For instance, under existing conditions in the United States is a man with an income of $100,000 able to pay more than ten times as much as one with $10,000 or a man with $10,000 able to pay more than ten times as much as one whose income is $1,000? It is thought that sacrifice of personal comfort is probably less, proportionately, as the income increases. It is for this reason usually that progressive taxes are levied.

Owing to the indirect system by which our laboring men are taxed thru their consumption of tobacco and spirits under our internal revenue laws and thru their use of clothing and ordinary articles of home use under the tariff, they are generally exempted from the payment of the property and inheritance taxes owing to the minimum exemptions.

16. *Single tax.*—The single tax, first made a political issue by Henry George in "Progress and Poverty," is based upon the assumption that the increase in the values of land is due solely to increase of population and progress of civilization, and is a source of income unearned by the owner of the property. Single taxers have generally assumed that a tax upon land value would be sufficient to meet all the expenses of government, even tho in many cases it would not need to be confiscatory of the entire amount of the unearned increment.

The discussion of this theory has led to a more careful study of the causes of the increase in the values of land and to a keener analysis of the entire question of unearned increments of value in other fields.

The chief objections to the single tax theory are ordinarily:

(1) That the amount received from such a tax would vary most unevenly in different localities, not at all in proportion to the population and often not at all in proportion to the ability to pay taxes.

(2) That in very many instances the tax would not be sufficient to meet the needs of government.

(3) That inasmuch as many other sources of income besides land have likewise an element of unearned value in them, being brought about largely by increase in population and in civilization, the tax levied on land values alone would be unjust. Incomes, for example, of many merchants, of lawyers, of physicians, of stock brokers, of bankers, are similarly af-

fected with little or no reference to the question of real estate holdings.

(4) No provision is regularly made for decreases in taxation, altho there are very many instances of decrease in land values; and finally

(5) The present holders of land in very many instances have paid full value therefor and have in consequence paid the penalty of the unearned increment. It would be unjust and morally wrong for these land holders to be deprived of their property without compensation, whether or not one were to agree with the general principle of the unearned increment in land values.

17. *Indirect taxation.*—The existence of a duplicate form of government such as is found in America in our Federal and State Governments has made it seem advisable to separate as much as possible our forms of taxation. Until late years the Federal Government used only indirect methods of taxation for raising its revenues, the tariff duties and excise duties. There have, however, been several instances of other taxes in emergencies; for example, the income tax during the Civil War and in 1894. Again, in 1912, under the new Administration, an income tax was taken up as a matter of permanent policy.

The Federal Government by the efficiency of its administration has in many ways offset some difficulties connected with indirect taxes. The most important of these taxes are the customs duties and the excise or internal revenue taxes. The customs duties

will be discussed at length in the following chapter.

18. *Internal revenue taxes.*—Besides the tariff, the United States has selected a limited number of domestic articles of luxury or those of minor importance as objects of an excise tax. These are chiefly tobacco, spirits and fermented liquors. From these the income in 1914 was $304,000,000. From the revenue viewpoint these are admirable objects of taxation as is shown by the large income, the steadiness of the income and the ease with which the tax is collected. At various times, especially in emergencies, such as the Civil War and especially the great World War, other excise taxes have been added, such as licenses for theatres, moving pictures, stamp taxes upon patent medicines, upon legal documents of various kinds and fees required from certain types of bankers and brokers.

19. *Ideal system of taxation.*—It is not possible to fix any ideal system of taxation any more than one can plan an ideal form of government. Much is dependent upon local conditions; much is dependent upon the form of government; much upon the need for revenues; much upon the work required of the government. A country so constituted or situated that it must maintain a large army and navy, must necessarily bear a heavier burden of taxation than is otherwise required.

20. *Export duties.*—A country possessing a substantial monopoly of articles much needed in other countries may wisely levy an export duty. Some of

the Federated Malay States thus secure a large revenue from an export duty on tin, the entire burden of which must be borne by foreign consumers, inasmuch as this tin is needed to supply the demand. In like manner, no satisfactory substitute for Manila hemp in the making of ropes for the use of ships having been found, an export duty on the products of hemp yields an excellent revenue to the Philippine Islands without imposing any burden upon the inhabitants. Such conditions exist in only a few countries.

For our purposes, our internal excise taxes seem to have worked admirably. Our tariff taxes, owing largely to our political conditions, may be very severely criticised. They doubtless can be greatly improved, if our tariff commission can be given a free hand and shown the judgment to put them gradually upon a scientific basis. An income tax, with all its drawbacks, is still an excellent source of revenue. When experience shall have improved the methods of reckoning and collecting, custom have lessened the repugnance to its inquisitorial features, and an adjustment to the burden of other taxes been secured, this is likely to become a valuable tax.

21. *State taxation.*—In our states, the inheritance tax and proper forms of the corporation tax are to be recommended. The personal property tax, as it now stands, should probably be abolished. The land tax, with proper distinction between land values and improvements on land, may well be retained. If

more revenues are needed than would come from the sources named, together with fees and licenses, it is probable that there may also be added either a state income tax which could be based in part on returns made to the Federal Government, or a presumptive income tax based on rentals and salaries. These, in whole or in part, would provide to advantage and with a reasonable degree of justice, adequate sources of income.

22. *Public finance.*—The Government is a permanent agent for the satisfaction of human wants. It has long been agreed that protection of property and person can be better provided thru the medium of the Government than by the individual. Various other wants of the individual can also be better satisfied by the Government than by the individual thru private action. How far any government shall become the agent of its citizens in promoting the common welfare depends entirely upon the stage of civilization, the circumstances of the community and the will of the people themselves.

Public finance is the name given to the collecting of revenues and their expenditure for public purposes. Consequently, taxation is one phase of finance, public expenditure the other. The rapid growth of public finance is shown by a statement of the amounts expended. In the year 1810, the United States government spent $8,474,000; in 1914, $914,000,000 exclusive of debt charges and, of course, before special war charges began. The expenditures of states and cities

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show similar growths. According to late reports, in 1902 the cities in the United States of over 25,000 inhabitants were spending more than $469,000,000; and in 1912 they spent $900,000,000 in addition to sums borrowed.

23. *Importance of public expenditures.*—About from 10 to 15 per cent of the national income is spent in times of peace by public agencies for education, roadways, care of defectives, sanitation, military and naval programs, and other objects included in modern state expenditures. Many projects of great social importance are proposed that would increase this expenditure still more, but the burden upon the citizens who themselves often have only small incomes has become so great that many proposals for protectection from disease, from accidents, for better education and for proper police protection even, are neglected. Nevertheless, there is a continued demand for social betterment movements and the storm center of the struggle for improvement is public finance. The state has first claim upon the wealth of the citizens, a fact particularly apparent in times of war, but good sense lays down certain restrictions in regard to public expenditures. It is clear that the collection of taxes should be made just as inexpensive and as effective as possible and that expenditures should be carefully guarded.

Altho efforts have been made to fix principles of government expenditures there is no definite rule by which the amount may regularly be determined. The

state should return a real value for what it expends. The economic and political value of the individual citizen should be augmented by the social expenditures for education, sanitation and protection. The social surplus, beyond the necessary elemental cost of maintaining life in the household, that the members receive, should be maintained. The growth of civilization is dependent upon this social surplus. If the state is absorbing this surplus too rapidly or is actually preventing the saving of capital for future economic enterprises, then the public expenditure is too large. Careful and constant investigation thru well-equipped statistical bureaus, manned by highly trained men, can alone furnish an adequate solution of public finance.

24. *War expenditures, loans and taxation.*—In the fiscal year 1913–1914 the disbursements of the Federal Government barely exceeded one billion dollars. For the fiscal year ending June 30, 1918, the Government needs amounted to some twenty billion dollars including necessary war credits to the Allies. These simple figures are eloquent of the sacrifices which modern warfare requires, and indicate the profound changes which war has wrought in the relation of the individual to the state.

Such an enormous expenditure means a complete realignment of the relations of private wealth and the Government now and hereafter.

In the sudden emergency of war great sums are needed before it is possible to increase the revenue

adequately by new taxes. This need is usually met by government loans of various forms. In our own experience in the great war we have made five loans, the largest in the world's history.

At the same time, as we have seen, the revenues have been enormously increased from slightly less than $1,000,000,000 in 1914 to an estimated sum of some $6,000,000,000 in 1919 which was planned for $8,000,000,000 if peace had not come. The enormous sums will not be needed in peace. Already Congress plans only $4,000,000,000 for 1920. And yet we shall never return to the old standards. The burden of our huge debts of some twenty-five billions will be to a considerable extent borne by our allies to whom we have granted credits of some eight and one quarter billions. From this source, to be increased, we shall obtain an income of some $500,000,000 a year. And our net debt deducting these loans is some $15,000,000,000 and to carry this, even tho its burden should be taken up later thru long term obligations by the next generation, we shall need large revenues. Moreover, a new era has come. Army, education, public enterprises like public lands, water powers, navigation, have taken on new aspects. In this new world, government will doubtless play a greater part. We must look ahead to heavy permanent taxes, accompanied, I believe, by an increased prosperity that will lessen the burden.

REVIEW

How did the practice of taxation arise?

By what principles ought a government to fix the maximum and minimum limits of taxation?

What are the chief defects of the general property tax?

Why is the inheritance tax easy to collect?

Does it conform to Adam Smith's third canon of taxation?

Why is it not practicable to frame an ideal system of taxation?

What is the distinction between direct and indirect taxes and what are the merits and disadvantages of each?

What should be the general relations between taxing systems of national, state and local governments?

During the progress of a great war how would the amounts of special government income for war purposes be normally distributed between government loans and taxation?

CHAPTER III

GOVERNMENT, NATURAL RESOURCES AND THE FARMER

1. *American land policies.*—From the foundation of our Government until within a few years, its policy was to rely for the development of our country's resources, mines, forests, farms, upon the initiative and self-reliance of individuals. Only in great permanent improvements, like canals and roads, that must be public in use, did either state or nation rely upon the government. The first great step taken to develop our agricultural resources took definite shape in the great Homestead Act of 1862, which in amended form is still in force. By this act 160 acres of surveyed agricultural land were given to adult citizens and heads of families upon proof of five years' residence and cultivation. No charge was made with the exception of certain fees ranging from $20 to $50. To this liberal land policy was due the settling of the Middle West and the development of this hitherto unparalleled rich territory. In the development of the arid lands that required irrigation or dry cultivation the laws have been modified, but the underlying purpose is much the same.

2. *Mineral lands.*—At first mineral lands were re-

served from sale and leased for royalties. But later they too were almost given away under the agricultural settlement laws. The priceless iron deposits of Minnesota now held by the United States Steel Corporation were originally sold for a nominal sum. The state of Minnesota, from the small tracts given to it for educational purposes, has already realized a vast education fund and will probably net in royalties at $.25 per ton not less than $250,000,000 from its iron ore deposits.

3. *Forests.*—Timber lands also were first taken up under the settlement laws. The wonderful white pine forests lying around the Great Lakes passed under private ownership at nominal prices, and for immediate private profit were sacrificed to the axe or in many cases were destroyed by fire. Much of this land, however, has since become valuable for agricultural purposes.

4. *Conservation of natural resources.*—Our governmental policy toward not only agricultural land but toward our other great natural resources as well has of late years changed from one of sole reliance upon unrestricted private interests, which in many instances led to wasteful exploitation, to one of conservation. As a result of a popular demand for conservation of natural resources President Roosevelt in May, 1908, called a conference of governors at the White House and later appointed two commissions to study the subject. Since that time steady progress has been made in furthering the work.

5. *Reclamation service.*—In 1902, the Federal Reclamation Act was passed providing for the construction and operation of works for the irrigation of arid public lands in the West. This Act was amended in 1914 by the Reclamation Extension Act, which made radical changes in the sections pertaining to the use of funds and the methods of making payments. Settlers may now repay the cost in twenty annual instalments.

6. *Government grants land to states.*—New states have regularly received land for the support of common schools, and since 1850 some 60,000,000 acres of swamp lands have also been granted to the several states to be reclaimed. Even larger tracts have been given in aid of canals, turnpikes, levees and other public works, especially railroads. Coal and iron lands pass with railroad grants. Other mineral and saline lands are usually reserved from grants and preemptions and are sold.

7. *Public parks.*—One of the most important uses that have been made of the public lands by the United States Government has been the reservation of some vast tracts, as public parks, usually those containing some of the noblest and most beautiful mountain scenery in the country, with the expectation that the primary use to be made of these parks shall be for recreation. Most of them contain scenic wonders, in some cases archaeological ruins, and in many instances also important mineral deposits. In 1906, an Act of Congress authorized the President to reserve by proc-

lamation as national monuments such public land as contained historic landmarks and other places of historic and scientific interest. Under this Act there has been brought under the control of the United States such natural wonders as the petrified forest of Arizona, the Grand Canyon of the Colorado and Mount Olympia in Washington.

8. *Plans for conservation.*—The Secretary of the Interior, Mr. Franklin K. Lane, has made a very careful study of the conservation situation and has prepared detailed plans for carrying out the government policy. These plans apply in several ways the principles of conservation thru leasing. Coal lands would be leased by competitive bidding; railways might mine, but only for their own use; reservations would be held by the Government for the army and navy; small homesteaders would for a time pay no royalties; the Department of the Interior would be given large discretion and would be expected to make provision against fraud and collusion. The water power and irrigation projects contemplate the private use thru leasing not only of coal lands but also of oil, gas and other such natural products, together with the provision for conserving the radium bearing soils. It is to be hoped that these measures will become effective, and once effective, will be wisely administered. Cooperating with the Government in these efforts are many of our public-spirited private associations such as the Chamber of Commerce of the United States.

9. *Importance of agriculture.*—Agriculture has always been the most important single industry in the United States, totaling in value of product for the year 1916, $13,448,310,509. Under normal conditions a bumper crop or a failure reacts upon all kinds of business and for this reason the attitude of the government toward agriculture is vital.

The assistance given to the farmers by the state governments in the last fifty years is a concrete illustration of the almost limitless possibilities that may follow intelligent action systematically carried out for the benefit of industry.

The manner in which state aid has been given to agriculture is somewhat complicated, as the work may be carried on either jointly or separately by Federal, state and local governments.

10. *Fields of government activities.*—Government activities in the field of agriculture may be divided into three groups: (1) those dealing with the alienation of public domains; (2) those dealing with scientific production; (3) and those which endeavor to solve the social and economic problems which have come with the transition from a self-sufficing industry to a business type of farming. In making these divisions, it must be kept in mind that the three types of activity may be going on at the same time, and do not necessarily represent successive stages.

Not only has the Government been active in bringing the land and the farmer together, but its interest has extended to the cultivation of the soil. The

former feeble and unorganized efforts to improve agriculture gave way in 1862 to a definite, systematic and wide-spread movement that came as a response to the growing demand for better agricultural conditions, especially in the older states which found themselves in keen competition with the new West whose products were seeking the eastern market made accessible by the extension of means of transportation.

11. *Department of Agriculture.*—In 1862 the Department of Agriculture was created. Its importance and possibilities were quickly recognized and a few years later, 1869, the head of the department was raised to the rank of a cabinet officer. In the earlier period attention was directed almost wholly to production. To increase the quantity and quality of farm products was the immediate problem to be solved, and various bureaus were created to attain this end.

The Bureau of Animal Industry was created to handle problems of every kind relative to live stock. This bureau has performed very effective work in investigating diseases among cattle and in making inspections of dressed meat. The Bureau of Plant Industry performs a somewhat similar service in plant production. Its work has been especially valuable in checking plant diseases and in introducing many previously unknown fruits and vegetables to the United States.

12. *Agricultural colleges.*—The passage of the Morrill Act in 1862 made possible the creation of

agricultural and technical colleges by providing for an amount of land to be apportioned to each state equal to 30,000 acres for each Senator and Representative in Congress under the census of 1860. This endowment was further increased in 1890 by an annual cash payment of $25,000 to be applied for instructional purposes. While considerable attention was given in these colleges to the application of science to agricultural production, one of the most important functions of the college was to give practical instruction. In the main the methods of farming that prevailed were those inherited from former generations, in many cases applied under totally different conditions. The purpose of agricultural education was twofold: one, to afford a type of instruction having educational and cultural value; the other to familarize young men and young women with the basic sciences and scientific methods of farming. The colleges have more than met these expectations. By adapting courses to meet the needs of the students, by instituting short courses during the winter for those unable to attend for a longer period, and by adding the regular college courses they have developed a very much higher type of farmer, not alone in respect to his methods of tilling the soil, but in his general manner of living.

13. *Hatch Act experiment stations.*—As the importance of scientific farming became more apparent, greater interest was manifest in extending investigations to every branch of this industry. To meet this

need the Hatch Act was passed in 1887 which established experiment stations in connection with the agricultural colleges. Congress appropriated $15,000 annually for each station, which amount was later increased to $30,000 by the Adams Act of 1906. The object of the experiment stations is given in the enabling act as follows:

> That it shall be the object and duty of said experiment stations to conduct original researches or verify experiments on the physiology of plants and animals; the diseases to which they are severally subject, with the remedies for the same; the chemical compositions of useful plants at their different stages of growth; the comparative advantages of rotative cropping as pursued under the varying series of crops; the capacity of new plants or trees for acclimation; the analysis of soils and water; the chemical composition of manures, natural or artificial, with experiments designed to test the comparative effects on crops of different kinds; the adaptation and value of grasses and forage plants; the composition and digestibility of the different kinds of food for domestic animals; the scientific and economic questions involved in the production of butter and cheese; and such other researches or experiments bearing directly on the agricultural industry of the United States as may in each case be deemed advisable, having due regard to the varying conditions and needs of the respective states and territories.

14. *Farm management.*—Agriculture required the same careful management necessary in other industries, but there were no data which could be used. To secure information that would enable the farmer to conduct his business as other business men do, the government created the division of Farm Management.

The division has carried on experiments covering a period of years to determine the best methods of farming. It has also tried to secure the desired information from successful farmers who typified all conditions and combinations of farming. Surveys have been made covering certain areas, and results show how much the farmer has realized on the year's operations; the size of the unit; the amount of live stock and kinds of crops and the general type of farming conducted. From these data covering a large number of farms conclusions are drawn which determine the proper method of farming under given conditions. A second and third survey is usually made to verify these deductions. As a result it has been possible to work out general principles that will guide the individual farmer in determining what kind of farming he should engage in, the amount of land necessary for the most efficient unit, and also the amount of capital required in the form of live stock, machinery and equipment.

15. *Institute work: Smith-Lever Bill.*—It has been the policy of the agricultural colleges to carry on institute work. The great possibilities for good that might come from carrying the results of the work of the colleges and experiment stations to the farmers themselves led, in 1914, to the passage of the Smith-Lever Bill. The purpose of the law is to diffuse among the people useful information relative to agriculture and home economics. To finance this cooperative extension work Congress set aside $480,000 from which a sum of $10,000 is to be paid to each state

that will appropriate an equal amount; either state, county or agricultural college funds to be expended in carrying on the extension work in that state. This sum of $480,000 is to be increased each year for seven years to a total of $4,580,000 yearly appropriation.

16. *Extension teaching.*—In planning the work of extension teaching, the widest interpretation is given the words Agriculture and Home Economics. These terms include all problems pertaining to the welfare of agriculturalists either in the home or in the field. A trained force of teachers selected especially for this type of work are conducting lecture and demonstration tours over the states all the time. The demands for their visits are still greatly in excess of their ability to meet them. The farmers gather in great numbers and are eager to learn better methods. The housewives are taught better ways of preparing food. One lecturer may devote his entire time demonstrating a cheap and efficient method of furnishing running water in every household, which will greatly lessen the burden of the housewife.

The extension work has expanded to include rural engineering, dealing with problems of power on the farm, proper sanitary equipment, rural architecture applied to houses and barns and economic and social problems, such as marketing, rural credit, rural organization and the socializing activities of a rural community.

17. *County agents.*—Still another method of helping the farmer in a practical way is thru the county

agent, who advises the farmer on all methods pertaining to the conduct of his business along lines approved by the best authorities. These agents may be college professors or successful farmers. It is not an easy task to persuade the average farmer to abandon his inherited method of farming for some book theory. Most of the agents have brought about the desired changes, not by insistence, but by the patient, tactful, persistent pressure of illustration and example. It is the duty of the expert to advise on matters of health of stock, of the policy to pursue on farm crops, of farm management and a mass of details connected with the particular types of farm enterprise found in the farmer's county. The agent is especially helpful in arranging for extension work and in encouraging boys' and girls' clubs and school fairs. The gap between the college and the farmer is thus bridged by the man who is trained in the college and who brings that training directly to the farmer. He is not content with telling the farmer how, but shows him how and helps him until he masters the art of improved agriculture.

18. *Marketing problem.*—Within the last few years the task of marketing farm products economically has become increasingly difficult and is now considered one of the most serious questions in agriculture. The gains that have been made thru improved methods are lost to the farmer because of poor and inadequate methods of marketing. With

a view to improving methods, a division of marketing was formed in the Department of Agriculture in the spring of 1913.

The first work to be undertaken was the establishing of standard grades. With the exception of agricultural products almost every article which is bought and sold conforms to some standard. In agriculture only a few things such as wheat and other grains have been standardized.

Studies have also been made of supply and demand for certain products at given points. During the shipping season a force of reporters work in the more important market centers of the country in an effort to divert shipments to points of greatest demand. Transportation and storage problems have been carefully studied in an effort to avoid seasonal fluctuations of perishable commodities and to furnish a more even supply. The department has carried on experiments in marketing by parcel post and express in an effort to bring producer and consumer closer together. It has determined the zones within which marketing is profitable, the kinds of produce to ship and how to prepare them. Extensive investigations have been made in the systems of marketing dairy products, live stock, and animal by-products for the purpose of suggesting ways and means by which they may be improved and the cost reduced. Since a large percentage of the expense and waste in the distribution of food products occurs in the retail

markets, the work includes also an investigation of all commercial methods of distributing and marketing food products in the cities.

19. *Federal Farm-Loan Act.*—The providing of proper capital for farming enterprises was for a long time a difficult question for the farmer to solve. In the past credit facilities have existed primarily for commercial enterprises and loans have been granted to undertakings in which the capital was ordinarily released within a comparatively short time. Agriculture, on the other hand, requires a long time before capital expended gives any sure return. In order that the farmer might obtain capital just as easily and as freely as the man in any other industry the Federal Farm-Loan Act was passed by Congress in 1916.

The general purposes of the Act are set forth as follows: "(1) to lower and to equalize interest rates on first-mortgage farm loans; (2) to provide long-term loans with the privilege of repayment in instalments thru a long or short period of years, at the borrower's option; (3) to assemble the farm credits of the nation, to be used as security for money to be employed in farm development; (4) to stimulate co-operative action among farmers; (5) to check land monopoly by making it easier for tenants to get land; (6) and to provide safe and sound long-term investment for the thrifty."

The Act constitutes a Federal Loan Board, consisting of four members and the Secretary of the Treas-

ury as chairman, which exercises supervision over the entire system. Loans are made by twelve Federal land banks at different centers thruout the country. The banks are under the temporary control of five directors appointed by the Board. The plan is primarily based on national farm-loan associations. These associations are organized and controlled by the borrowers themselves, similar to the well-known building and loan associations, each association being made up of ten or more farmers. Together they must apply for loans aggregating $20,000 or more. Five per cent of each loan shall be subscribed and paid for capital stock in the association, and the association in turn shall subscribe for an equal sum in the Federal land bank in its district. When the stock subscriptions of the associations reach $100,000 in any one bank the control of that bank passes from the five directors temporarily appointed by the Federal Farm Loan board to a new board of nine directors, each holding office for three years. Six of these are elected by the National Farm Loan Association which therefore has control. The other three are appointed by the Federal Farm Loan Board.

The association may appraise land and accept and indorse mortgages for its stockholders; receive and deliver the proceeds of loans to its borrowers; acquire and dispose of property necessary for the conduct of its business; issue certificates of deposit at 4% for terms up to one year which may be invested in

farm-loan bonds; and receive and transmit to the Federal land bank, payment of interest, principal, etc.

Loans can be made by the association on first mortgages of land within its district, for 5 to 40 years. The interest rate shall be fixed at one per cent above the rate borne by bonds for which the mortgages shall be exchanged. The range of loans to any one shall be from $100 to $10,000 and no loan shall exceed 50% of the land value, plus 20% of the value of improvements, which shall be duly insured. Loans must, under penalty, be used to purchase farms, equipment, live stock, to erect buildings, or to clear the farm of encumbrances provided the applicant is a member of the first association organized in the country. Finally, no loan shall be made except to a farmer or person about to become a farmer.

The shares of stock ($5) are assessable for expenses, carry double liability and may be held only by borrowers. Surplus and dividends will be developed from the $\frac{1}{8}$ of one per cent commission allowed the association out of semi-annual interest payments. The capital, surplus, bonds and mortgages are exempt from all taxation. On October 31, 1918, after the system had been in operation a year and a half the Federal Loan Banks had loaned about $140,000,000 in small amounts to farmers.

20. *Improvement in rural conditions.*—Not content with giving help in business and financial matters, the Government has created a division of rural organi-

zation, the work of which is to create better social, educational and religious conditions in rural communities. The desire to leave the country and move to the towns and cities is very strong in a large part of the farming population. The main reasons given for abandoning the farm are the absence of attractions in the country, poor schools, bad roads and hard work for men and women. Efforts are now made thru existing agencies to enrich the social life of country districts by organizing societies to stage plays, arrange debates and to provide for social gatherings which shall break down the isolation and distrust so prevalent in the country. Labor saving devices are being demonstrated for use on the farms. The work of the government rural engineers is directed toward the improvement of country roads. Experts are drafting systems of education that will meet the needs of the agricultural population and the state colleges are holding special sessions for country ministers to give them some of the gospel of rural economy and to make them leaders in the economic, social and religious life of their respective communities.

REVIEW

Why did it become necessary in the United States for the Federal Government to take positive action regarding the conservation of natural resources?

What steps were taken in that direction by President Roosevelt?

To what extent should our natural resources now conserved in our forest and land reservations be opened to private individuals for exploitation and use?

Under what conditions should private individuals be permitted to make use of these natural resources?

Agriculture is frequently spoken of as the most important industry. From your study of economics what reasons are there, if any, for considering it more important than manufacturing, or transportation, except the number of persons engaged and the investment?

What are the main provisions of the Morrill Act and in what ways has this Act been conducive to the development of agriculture and to military training?

Does the work of the extension teachers and the county agents have any effect toward pauperizing the farmers as a special class?

Outline briefly the main provisions of the Farm-Loan Act.

CHAPTER IV

GOVERNMENT ENCOURAGEMENT OF INDUSTRIES AND COMMERCE

1. *Government methods of encouragement.*—Aside from the measures mentioned in the preceding chapter to promote agriculture and industry and the special legislation February 23, 1917, establishing the Federal Board for Vocational Education, the National Government has done little to promote directly industry and commerce, save thru the temporary sugar beet bounties. Indirectly, the Departments of State and of Commerce thru their valuable reports and the active support of their officials in foreign countries have given valuable assistance to our business men in the development of our trade abroad as was fully developed in Volume 15 on Foreign Trade and Shipping. The tariff has been the method that has been chiefly in the public mind. It has naturally been the subject of heated political debates.

2. *Tariff and politics.*—The fact that the tariff has been likewise one of the chief sources of revenue has only tended to confuse the issue and at times to embitter the controversy. As long as special classes of the population would seem to benefit directly from the tariff, others would surely oppose whether wisely or unwisely. Wherever the protective tariff exists,

however firmly fixed in the policy of the country, such contests are sure to arise. In free trade countries there are always industries wishing protection, so that the subject is one of perennial and universal interest and importance.

3. *Tariff systems.*—It will serve to clarify the discussion if we note at the beginning the three systems commonly recognized.

(a) The single tariff. Under this system only one schedule of duties is imposed, no discriminations being made among countries. In exceptional cases like China there may be only one rate for all imported articles, the country having bound itself by treaty. Before China was accustomed to foreign trade she agreed with foreign nations to levy a duty of only five per cent *ad valorem*. These were then converted into specific duties. With the rise of prices, the yield fell to less than three per cent. Since China entered the war an international commission has been at work to bring the rates to an effective five per cent.

The United States with a great variety of duties, many of them at very high rates, nevertheless retained the single tariff until the year 1909.

(b) The general and conventional system. Many important countries have made concessions to certain others in their commercial treaties. Thru the application of a "most favored nation" clause, lower rates than those agreed upon in general schedules are given to certain countries. Other countries outside this group pay the rates named in the general sched-

ule. Germany applied this system from the year 1891 till the outbreak of the war.

(c) The maximum and minimum system. This consists of two schedules like the general and conventional system. The maximum tariff corresponds to the general tariff, the minimum to the conventional one. The difference lies mainly in the minimum schedule, and the authority by which it is applied. The minimum schedule is composed of a fixed list of rates of duty determined by law, not by the treaty-making power. In negotiations with other countries the executives, in making a commercial treaty, may not go below this minimum schedule, but they may apply that to countries entitled to "most favored nation" treatment. This system was adopted by France in 1892 and from 1909 to 1913 with some modifications by the United States.

4. *Merchandise and the theory of protection.*— The origin of the theory of protection is to be found as early as the sixteenth century when England and the other countries of Europe were each endeavoring to secure a favorable balance of trade. This economic policy centers around what is known as the mercantile theory, under which it was considered that it was highly important to possess and keep within the country a large amount of precious metals; that foreign trade was of more value to a country than domestic trade; that the manufacturing industries were of more importance than the extractive ones, and that a dense population is an element of strength to a

country. It was believed further that manufacturers make possible a dense population, lead to an export trade of large value, and offer unlimited opportunities for business enterprise. In order to further this policy, the mercantilists (as statesmen, merchants and other believers in this theory were called) considered state action in the form of protective duties, bounties, restrictions or other artificial aid necessary for the development of manufacture and trade.

5. *Alexander Hamilton's views.*—Alexander Hamilton was the originator of the protective tariff system in the United States. In no case, perhaps, do we find a better illustration of the political influences that often enter into an economic question than in this one. Hamilton, as we see from his celebrated reports on public credit and on a national bank, was too clear-headed to accept in full the doctrine of the mercantilists as it applied to money. In his report on manufacturers, presented to Congress in 1791, he noted the difficulty that an industry has in meeting competition from abroad, especially if foreign competitors have an advantage in previous possession of the ground or aid from their government. In another part of the report, he definitely recommended the grant of bounties, free admission of raw materials, and general protection to manufacturers within the country.

In his arguments, however, he had chiefly in mind the political policy of strengthening the central government by bringing to its support the great business interests. Probably, therefore, the main reason which

led to his recommendation was political. In common with Washington, he considered it of the utmost importance that the central government be firmly established. The debates in the Constitutional Convention had shown clearly the reluctance of very many citizens to yield any of the sovereignty of the separate states to the central government. To give the nation the standing that he knew to be essential in order to secure proper respect abroad and to establish it on a sound foundation for future growth, it was desirable to win to its support the intelligent business interests of the country. The adoption of the protective system would immediately rally to the nation's support those who would benefit by such a tariff and these would normally include a large proportion of the men desired.

6. *Conflicting economic interests.*—In later discussions thruout our history the direct business interests of the various parties likely to be affected by the tariff are always seen. With the single exception of the slavery question, the tariff more than any other has tended to divide the country on sectional lines. The southern states until after the Civil War were almost entirely agricultural, producing principally cotton for export or for shipment to the North. As there was practically no import of cotton and other goods that would come into competition with their products, they needed no protection. Any tariff would tend toward increasing prices of the articles they consumed without having any effect toward raising the price of the

goods that they produced. Therefore, they were free traders. In the North, manufactures were rapidly developing, even the manufacture of cotton. These manufactured goods were subject to competition from Europe, and the new industries had to overcome both the difficult conditions of building up new industries with small capital and of doing this in the face of vigorous competition. The North, therefore, desired protection.

The division is not one between agriculture and manufacture, as is often assumed, but between articles not subject to competition and those in competition.

Farmers demand protection where they must meet competition. The Corn Laws in Great Britain were not abolished by the will of the farmers, but against the farmers' wish by the influence of the great manufacturers in Manchester, Birmingham and Leeds. It should be remembered that Cobden and Bright, with all their patriotic eloquence, were cotton manufacturers representing manufacturing districts. In Germany the farmers have been protected against the competition of America by protective duties, and the German agitation against the importation of pork from America had economic protection as well as defense against trichinae as an impelling motive.

Political principles are often born of economic advantage. The sincerity or the patriotism of those who advocate measures which tend to their business advantage, is not questioned in the least; but human intelligence is limited, the range of most men's ex-

perience and political vision is narrow: a man naturally sees his own interests more clearly than those of his neighbor. It is but natural for him to assume that what benefits him will benefit the community at large. Usually it is only those without direct economic interest in a public question who see that question in all its bearings. Such men are few. It is therefore desirable that in our legislative bodies, members standing for all interests be present so that the opinions represented will be approximately those of the entire nation.

No system is all right or all wrong; there is a middle course. It will suffice to present a few fundamental principles generally accepted by the impartial authorities who have no interest in partisan controversy.

7. *Classification of products.*—For the consideration of the tariff it is well to divide the goods produced in any country into three classes: (a) Goods produced to better advantage in the home country than in any foreign country. Such goods, it is evident, need no tariff for protection, nor would a duty levied upon them yield a revenue of importance. Only when some foreign territory is so situated that it cannot find another market for such goods will they be sent into this country, and such cases are very rare. A tariff levied on such goods is usually purely political, intended to offer protection when none is needed.

(b) Goods produced in the home country only under conditions permanently unprofitable. As yet

it has not been found practicable to produce commercially, tea, coffee, cinchona bark or rubber in this country. A duty levied on such goods, therefore, would have practically no influence toward building up an industry. It would be a duty that would yield a large revenue provided the articles such as those mentioned were practically necessities. Goods of this type make the best basis for a revenue tariff.

(c) Goods adapted to production in this country but also produced as cheaply or possibly more cheaply for a time at least, in foreign countries. Import duties levied on goods of this type will produce a revenue unless the rate is so high as to prevent importations entirely, and they will also furnish protection to the industries established here, inasmuch as they tend strongly to check importations and thereby lessen competition. All discussions on the tariff, therefore, center upon this third class of industries. Most of the leading arguments on both sides have a certain degree of validity. The policy to be adopted by any country is not simply for or against protection. It is multiform, the validity of the arguments varying with every schedule, with almost every article considered. No two different articles are produced under exactly the same competitive conditions. To attain the ideal system therefore, each article would need a separate treatment. As a matter of practical legislation, however, only an approximation to the ideal can at the best be secured and schedules must be constructed,

therefore, for great groups of articles more or less similarly situated.

8. *Infant industries.*—In the early days of manufacture in this country a favorite argument was that infant industries should be protected. In the beginning of an industry there are large expenses of obtaining capital, the training of the labor force, the securing of a market, the building up of good-will and other like difficulties. Men argued that an industry should receive support by checking foreign competition for a time, and that when the infant grew up the protective hand might be removed. The opponents, of course, called attention to the fact that the protected industries were never ready to surrender the tariff.

How high should such a tariff be? How long should it be continued? In what way should it be removed? Clearly the same rate would not apply in all industries. The rate should be high enough to overcome the advantages of the foreign competitor or the principle of protection would not apply. But a tariff high enough to divert capital from investment in old established industries into one new and untried must insure profits from the beginning. Under these circumstances it is certain that some establishments will be built in the most advantageous places; others will be set up where conditions are less favorable and sometimes they will have less skilled management. In these circumstances even after the difficulties of the

beginning have been overcome there will still be establishments with little or no profit, even tho those best situated are reaping high profits. The demand for the lowering of the tariff, therefore, is bound to be vigorously opposed and the cry that its removal will close factories, throw men out of employment, cause suffering, is perfectly true. Herein lies the difficulty under our system of legislation. Doubtless the difficulties of establishing a new industry are such that a country might well pay higher prices for a time to secure later the benefit of a self-sustaining industry that would need no further help. Cities often gladly pay a bonus to secure a new industry. But, with our system of passing tariff laws, it is often difficult to withdraw the aid.

9. *Who bears the burden of the tariff?*—Some extremists have asserted that the tariff is a tax which the consumer pays. This is true for goods not produced in this country; the tariff tax is regularly added to the regular price of the goods. It is generally not true to the full extent in other cases. Extremists on the other side assert that the tariff is a premium paid by the foreign producer for the privilege of selling in this country. This has been true in certain cases where the foreigner had to enter this market, either to dispose of a surplus stock or to avail himself of the one possible market. Some years ago, before the Canadian railways were built, the producer of wheat in Manitoba had to market his crop in this country. The market price was fixed within our

country by local conditions and, therefore, wheat with the tariff at $.25 a bushel sold at $.25 less on the Manitoba side of the boundary than in Minnesota. Thus the foreigner paid the duty.

Certain other classes of goods, such as woolens, are manufactured here in part; in part they are exported. In these cases the foreign producer in order to force his way into our market against our competition, has usually to lower his price somewhat, altho generally not to the full amount of the tariff. The burden is thus borne in part by him, in part by the American consumer. How the burden shall be divided depends upon the relative demand and supply. If, for any reason, our supply is short so that prices go up and we must have the goods to meet our needs, the American consumer will pay most if not all of the tax. If, on the other hand, our market is fairly well supplied by the home producer and the foreign producer has a surplus, he must cut his prices in order to get into our markets. He will then be carrying most or all of the duty. The changing conditions of the market shift the burden, but it is fair to say that speaking generally the consumer bears a considerable part of it.

10. *How far should a country be self-sufficient?*— Many argue, however, that even tho the tariff be a burden upon the consumer, it is wise to bear it in the case of many products, in order that the country may be self-sufficient, especially in time of war. This was one of the arguments given thirty years

ago in Germany for maintaining the duties on grain as well as for building up many diversified industries. This is an argument advanced now in this country for government ship-building yards, munition plants, establishments for the building of armor plate, powder mills and numerous other plants. The argument received great emphasis from war experience.

11. *Education and diversification.*—Other industries are supposed to have in themselves a cultural or educational value aside from advantage in times of conflict. It is, however, always a question whether a country gains more by excluding foreign competition and attempting to supply itself or by getting the benefit of foreign training thru the removing of obstacles to the influx of foreign ideas by the importation of foreign products.

Our artists and lovers of art smile disdainfully at a tariff on pictures, and our highest protectionists have not ventured to limit the importation of ancient or medieval art. But even those who would admit free art and artists, including operatic stars (for they are exempt from the provisions of our contract labor law), would often not argue for the free admission of even the most artistic modern furniture or porcelain or indeed of any series of such products. And yet highly skilled artisanship tends to stimulate invention and to produce competent and adaptable workmen whose services will fill a genuine need and increase many times, perhaps, the productivity of their labor. Diversified industries not only satisfy a wider

range of human needs, but by furnishing an opportunity of employment to all kinds of talents doubtless increase the productivity far beyond what is possible among people practically all of whom are engaged in like lines of activity.

12. *Diversion of capital into less profitable industries.*—If a protective tariff is really needed for any industry in order to enable the producers to secure higher prices than would be possible in competition with foreign goods, capital is drawn from industries normally yielding high profits into some making lower profits before the duty is levied. Provided, however, that the industry is well chosen as one adapted to the country and having only to overcome the difficulties of starting production, and provided further, that the tariff is scientifically levied and in due time removed, it is probable that a new industry will be established that raises the total productivity of the country.

13. *Effect of the tariff on wages.*—The wages that can be paid in any industry are directly dependent on the economic productivity of that industry. If it is run with low profits, wages must be relatively low in cost however high in money rates. If the gains are high, wages may well be raised. In accordance with the principles of a protective tariff, it is clear that as long as a protective tariff is really needed to prevent the failing of an industry, that industry is not raising the total economic product of the country. That is not saying that the protective tariff may not be justified. The industry may be

new and this condition merely temporary. The industry may be one needed for the country's defense, or for its education, or other good reasons may be found for its maintenance. But, if the tariff is needed for the industry's maintenance, it does not for the time being increase the country's total economic product.

Again, an increase in the price of one product, such as will be caused temporarily at least by a protective tariff, increases the cost of living of all persons in the community who consume that product. Taking industry as a whole and wage earners as a whole, it is not possible for the reason just given that a protective tariff can raise the general level of real wages (that is, the goods purchased with the money wages) so long as the tariff is needed to maintain the industry. It is true that a tariff may enable the economic product of any one industry to be decidedly increased and the money wages or even the real wages in that industry may be increased, but the general level of all real wages, it is evident, cannot be thus increased.

The chief causes for high wages in the United States have been:

(a) The influence of our free land for agricultural development. The large profits derived from agriculture set a standard for wages in other industries.

(b) In certain industries American labor is exceptionally efficient, especially on account of the intelligent use of machinery and the standardization of the products. High wages do not necessarily mean high

cost of production; frequently the opposite. We can, therefore, compete against foreign labor in many instances in the production and exportation not only of grain and meats but also of agricultural implements, boots and shoes, typewriters, and sewing machines and many other products. The determining factor in the high average of wages paid in the United States is not the tariff, but free land and high productivity of labor. Nevertheless, the tariff is the reason for high wages in a large number of separate industries, and it might well be that a sudden change in the tariff would throw thousands out of employment and bring about widespread disaster.

14. *Home market.*—The home market theory of protection has been handed down since the days of Hamilton, Madison and Monroe. One argument of Hamilton's, common also today, was to the effect that the surplus products of American farmers should be absorbed thru the creation of a home market.

It is true that the checking of imports creates a home market. But the market created is not an additional market. It is a different one. With the creation of the home market comes the dwindling of the foreign market, since exports are always paid for directly or indirectly with imports. Home exchange is thus made to take the place of foreign exchange with a presumable saving of freight and quite possibly of labor. There may, however, be a net gain. Whether there is a net gain will depend upon relative prices and relative productivity of labor.

15. *Do protective duties cause slackening of industrial progress?*—Again, from the standpoint of progress made in industry many claim that protection thru the removal of competition tends to make industry stand still; that it removes the spur of incentive; that equipment which would be scrapped and methods which would be abandoned under the competitive methods of free trade are kept under a policy of protection. Such a condition overlooks domestic competition which is usually strong, unless there is a monopolistic combination. Then it may be right. But this principle of constant improvements is followed by the best producers at any rate, regardless of competition, either domestic or foreign, when it is clearly shown that costs of production can be lowered.

16. *Foreign trade a small part of total trade.*—In any consideration of the tariff it must be remembered that the foreign trade of any country forms a comparatively small part of its whole trade. Estimates of the ratio of domestic to foreign trade have been as low as 100 to 1, and have rarely exceeded 100 to 10. These estimates were made in a time of peace, and, of course, the war has raised the ratio of foreign trade, and the fact that the United States is now a strong creditor nation will keep the ratio higher than before. The fact still remains that the domestic trade of this country caters to the wants of far more than one hundred millions of people, so that the trade between our several states constitutes the greatest free trade area in the world.

17. *Tariffs exert small influence on industry.*—Moreover, the utmost effect which tariffs can exert is relatively small. The English economist Nicholson says: "Protective duties and bounties at the best can only direct the employment of a comparatively small amount of the labor and capital of a country; the greater part will be employed according to the natural and acquired advantages of the country relative to those of other countries."

These uncertainties render our tariff system unreliable as a source of income and make it advisable that we have some tax that can readily be varied in order to act as a balance wheel. This is necessary in order to adjust our revenue to our necessary expenditures so as to balance our budget from year to year. The income tax has been the English balance wheel, as a slight increase or decrease in the rate can enable the Chancellor of the Exchequer to increase or decrease his income by very exact amounts to meet his needs. Our internal revenue tax might have been so used, but we also may perhaps now use to this end our income tax.

18. *Chief objection to tariff.*—The chief objection perhaps to our tariff system is not so much the burden on the taxpayer as the effect at times upon our industrial development of the unscientific levying of the tariff under political pressure and the log-rolling system that under the circumstances is almost unavoidable. The establishment of our tariff commission ought to go far to remedy this evil by furnishing more

accurate knowledge regarding conditions of production and demand, both in this country and abroad, than it is possible for congressional committees to secure in the short period in which they must complete their work.

19. *Machinery in tariffs.*—The collection of duties on commodities entering the United States is entrusted to the customs service. For this purpose the country is divided into a large number of customs districts, in each of which there is at least one port of entry where are stationed the collector of customs, appraisers, surveyors, inspectors, special agents and in some cases a naval officer. Other ports of entry are designated if the needs of business make it necessary.

New York is the largest port of entry; over two-thirds of our foreign commerce comes thru this port alone, at which the customs service employs more than five thousand men.

Goods imported are examined and appraised at the custom-house, the public stores or appraisers' warehouse. In cases of dispute, arrangements are made for proper appeals to see that exact justice is done.

20. *Goods under bond.*—In case the importer does not care to withdraw his goods at once he may deposit them under bond in a warehouse for any time up to three years, and defer the payment of duties until the withdrawal.

If the importer wishes to put his goods in a manufacturing warehouse he is permitted under bond to do

so. There he can manufacture articles made from imported materials subject to revenue tax. The goods manufactured, however, must be re-exported. This system corresponds to the "free port" system of some European seaports and has proved to be a great stimulus to our export trade. It should doubtless be supplemented by the establishment of a few free ports in this country.

A drawback is a refund of the whole or part of the duty paid on importation in cases where the merchandise is subsequently re-exported within three years in the original package of importation.

21. *Kinds of duties.* (*a*) *Ad valorem duties.*—In the collection of duties three methods may be followed. Duties may be levied at a named percentage of the value of the goods imported. These are known as *ad valorem* duties.

The successful operation of this system requires collectors of tested honesty and efficiency and importers of high integrity, for there are many instances of attempted undervaluation, and just valuation requires a large and highly trained body of men, as inspectors and appraisers, who keep constantly informed regarding foreign markets and importers, both by study and by the use of skilled detectives.

(b) *Specific duties.*—Specific duties are much used in Europe, but are little in the United States, except in combination with the *ad valorem* duty.

Specific duties are based on units of measurement, number or weight—a certain amount of dollars or

cents per yard or gross or pound, and so on. The tariff under this system must be framed with greater care for detail than under the other, but once framed is, of course, easier to enforce by collection officials.

(c) *Compound duties.*—The third system of duties, which was much in use in the United States until the passage of the Underwood Tariff Act in 1913, is the compound duty which consists of the specific duty to which is added a supplementary *ad valorem* duty.

This method endeavors to secure in combination the advantages of both systems and possibly may disguise the amount of protection given in the duty. This form of duty adds to its collection the difficulties of both systems, and thus both the making and the working of the tariff schedules become more cumbersome and costly than under either of the other systems.

22. *Bounties.*—A bounty has been defined as a premium paid by a government to encourage some branch of production or industry. Such a policy is often considered impolitic but is sometimes justified as a measure of state.

The best known example of bounty granted by the United States in recent years was the sugar bounty established under the McKinley Tariff Act of 1890.

The question of subsidies to shipping might well be considered in this connection, but this will be found fully treated in the Modern Business Text on "Foreign Trade and Shipping."

23. *History of the tariff.*—A thoro discussion of the tariff problems in any developed country should

include a detailed statistical history of the effects of various schedules. The question is so complicated that it is impossible to predict with certainty what the result of any rate will be. Experience, however, may serve as a guide, and such experience should, of course, always be sought by legislators and students of the problem.

24. *Effect of the war.*—The abnormal conditions created in this country by the war have served to stir afresh certain phases of our tariff controversies. The revenues have been abnormally small. The opponents of the tariff, therefore, claim that the tariff has been unwisely levied. The Allied nations at the Paris Economic Conference of June, 1916, took counsel with one another with reference to the protection of their common interests after the war was ended. At that time radical discriminations in favor of the Allies were decided upon. Since that date the changes both economic and political have been so vast that the peace conference in Versailles found it necessary to consider the whole matter anew. It is entirely possible that new measures of international cooperation, not only political and military, but also economic and financial, will entirely change the world outlook upon this vital problem.

25. *Dumping.*—In many lines of industry it is probable that foreign governments have accumulated large stocks. Will they attempt to break down certain of our new industries and to regain their lost

markets by "dumping" upon this country these surplus stocks at prices below our cost of production? It is claimed that this was the policy followed by Great Britain after the War of 1812. Why should not such a policy follow this war? Fearing such a contingency provision has been made in the revenue act of 1916 for adequate protection.

26. *Economic independence of nations.*—The war has brought home to all countries the necessity of being able to feed and clothe their citizens and soldiery, and to meet war emergencies of all kinds. Even prior to the war England and Germany were debating how means might be found to raise cotton so that they would be less dependent upon the United States for their supply. After the war in cases where the United States has been the source of supply for countries of Europe, the countries with colonies will look to them to produce foodstuffs and other necessary commodities, probably thru a tariff union giving preferential treatment to colonial possessions by the mother country. The countries without colonies will make earnest and repeated efforts to raise such supplies at home. The slogan for all will be "self sufficiency." Even the United States is feeling the need. The Government shortly before our entrance into the war took stock of our industries to see how they could be best used to produce munitions. Some of our great business houses are aiming to secure a sufficient supply of rubber under American control.

Other industries will be taken up; and the question is sure to revive the tariff arguments.

27. *A tariff commission.*—For some years, leading men in both the great political parties have advocated "taking the tariff out of politics" by the appointment of a non-partisan scientific tariff commission. Owing to partisan strife in a late Republican administration, a permanent tariff commission could not be created, but an appropriation was made for the appointment of a Tariff Board to perform somewhat similar services and to make recommendations to Congress.

When the opposing party came into power it was eager to give immediate effect to its own tariff principles: the Tariff Board failed to receive its support and went out of existence. Now, however, this same party has appointed a Tariff Commission which is making a careful study in this country and abroad of industrial conditions with reference to specific industries in such a way that it may supply trustworthy data for the use of Congress. Such a board, with a conservative, trained personnel may well accomplish great good. Its aid was never more needed and probably at no time has public opinion been more ready to accept its recommendations. It is to be hoped that it will be properly supported and its recommendations properly considered. This is likely to be the chief factor in any solution of our tariff problem.

REVIEW

What are the three leading types of tariff systems?

Who were the Mercantilists?

What was Alexander Hamilton's chief reason for advocating a protective tariff?

Why did the southern states oppose a protective tariff?

What classes of goods are best suited to a revenue tariff?

How far is the argument in favor of promoting infant industries by protective duties sound?

What are the reasons why a country should be economically self-sufficient?

Analyze briefly the common arguments to the effect that a protective tariff increases wages.

Explain the duties of the United States officials in connection with the importation of goods.

What is a bounty as contrasted with customs duties?

Indicate briefly the effect of the present European war on tariff sentiment in the United States.

Should the Tariff Commission be limited to making reports to Congress or should it be given definite powers over tariff rates?

CHAPTER V

PUBLIC INSPECTION OF BUSINESS

1. *Controversy regarding government inspection.*—Bitter controversy has raged at various times over the question whether the Government, either Federal or State, should officially inspect, examine and certify to qualities of goods, to safety of business organizations, to qualifications of individuals. The subject is one of grave import, in business, in sanitation, in social organization.

2. *Need of standards in business.*—It will be readily conceded by all that in many lines of business, standards must be set up which can be easily tested and recognized. These may be standards of size or weight or time; standards of quality as regards goods; standards of fitness in the case of men or women who have duties to perform which require skill and knowledge and where ignorance might well cause great private or public loss. Some of these needs have long been recognized in all the leading countries of the world. The question, nevertheless, frequently arises whether or not government inspection is better than private inspection as regards accuracy and public confidence as well as expense. A moment's thought upon the wide extent of the field of inspection will also show that it covers business

and activities of so divergent a character, ranging from purely physical matters to personal characteristics and the moral influence which certain activities may exert, that the whole question demands careful analysis and presumably the setting up of principles on which may be based different methods suitable to different cases.

3. *Weights and measures.*—Everything that is to be measured must have the measurement expressed in terms of some unit or standard. The standard of length in Great Britain and the United States is the yard, which, in Great Britain is the distance at 62° F., between two plugs of gold sunk in a bar of platinum, preserved in London. In the United States the yard, in accordance with our law, is taken from the prototype meter in the National Bureau of Standards at Washington and is derived from it in the ratio of $\frac{3600}{3937}$. The international standard of length is the meter, from which the United States standard is taken. That standard is preserved in Paris. It was established by the French Republic in 1801. The unit was intended to be one ten-millionth part of the distance from the pole to the equator. Remeasurements proved that the meter had been made slightly too short, so that now it is defined as the length of a certain bar of iridio-platinum (ten per cent iridium). The original meter in this form is preserved in the Bureau des Archives at Paris. Certified copies of the same form and material are owned by all civilized nations, that of the United States being preserved at

the Bureau of Standards, Washington. Since it has been proved that this meter is not exactly the one ten-millionth part of one-quarter the circumference of the earth, as had been intended, it is no better than the yard or any other standard that might be taken. Inasmuch, however, as its multiples and sub-multiples have been fixed on the decimal system, it has been made the general international standard. In establishing the meter as a standard the French government related the measures of area, weight and volume to the meter and also to the most universal feature in nature, water. For example, the gram (unit of weight) is the weight of one cubic centimeter of water; the liter (unit of volume) is the volume occupied by a mass of one kilogram of water (measured in both cases at the point of its maximum density—4° C.).

From these illustrations it will be seen what great care and trouble have been taken by all leading nations to determine these standards by which we buy and sell goods of various kinds. To prevent cheating on the part of merchants by the use of short measures or inaccurate weight scales, there are appointed government inspectors of weights and measures with authority to make comparison with the standard at any time at their will of the weights and measures used by any business man. If a dealer uses inaccurate measures he may be severely punished.

In like manner governments set up certain standards of value. For example, in the United States,

the dollar is 1.672 grams of gold .900 fine. In a similar way in Great Britain the £ sterling is 7.988 grams of gold .916⅔ fine. In Germany the mark is .398 grams of gold .900 fine. In France the franc is .3226 grams of gold .900 fine. At times, however, in places where the Government has not by authority defined standards, private individuals or companies have done so. On account of the universality of their use, people very generally do not realize what infinite pains have been taken by governments to establish and maintain these standards unvarying, in order that business may be safely done. Without such standards the business world would be chaos.

4. *Salt, lumber, grain and sugar.*—Many common articles of consumption must be bought and sold according to standards of quality when from the nature of the merchandise the quality is not readily discernible by an untrained purchaser.

(a) Salt is sometimes mined, being taken from the earth in the form in which it enters into commerce. In this country it is usually found in solution with water (brine), and the salt is secured by evaporation of the water. In a similar way, a very large proportion of the salt manufactured and used in China is secured by the evaporation of sea water.

In all these cases it is practically impossible for the ordinary purchaser to determine the quality of the salt, excepting in the most general way. The governments of various states have therefore ap-

pointed inspectors whose business it is to test the salt and certify as to its quality before it is put into the market for sale and purchase.

(b) Lumber is prepared for the market by sawing it into boards, planks and beams of various sizes and shapes to meet the needs of purchasers. Of greater importance still, however, is the quality of the wood as regards the species of the tree from which it is derived, its soundness and its freedom from knots and rot. In earlier days, men familiar with the qualities of lumber or timber fitted for various purposes inspected the lumber as it came from the mills and was shipped to the great lumber yards for distribution to the users. These men, by practice and association one with the other, acquired a rare degree of skill, so that the inspection of different men at different places showed on the whole sufficient uniformity to enable them to do business. In certain places, however, an attempt has now been made to determine standards by government, and government inspection assists the dealers.

(c) Wheat, oats and corn are not sold by the measured bushel only. The bushel itself is usually of late years determined by the weight of the grain rather than by the bulk, inasmuch as the varying qualities for a standard bushel in bulk differ greatly in weight, and the quality of the kernels themselves vary. Moreover, the wheat or oats may have mixed with them various quantities of seeds from weeds or other substances because the grain has not been carefully

cleaned. Custom among the grain dealers had early fixed many quality standards, but now many of our states have set up local standards and have provided government inspectors. This practice of classifying and grading grain is distinctly American in origin. The Board of Trade of Chicago began it in 1858. State inspection was begun by Illinois in 1871, followed later by Missouri, Minnesota, Indiana and Kansas. Now most of the states and markets east of the Rockies have a substantially uniform practice. An Englishman of prominence in the grain trade has said that of all the inventions of human ingenuity in the grain business the American system of grading is the greatest.

(d) Sugar bought in large quantities by the great refineries has also been standardized, the standards varying somewhat in the different countries; but they are so well known that there is little difficulty in making comparisons. For example, in the United States standard raw sugar is 96° centrifugal, polarization test, and with this as a basis, the various grades of raw sugar are worked out. The refined sugar is represented by the granulated sugar. These and foreign standards are substantially uniform and can be readily applied by all the large manufacturers and dealears. Inasmuch as the sugar trade is to a considerable extent in the hands of a relatively few large producers, their gradings are accepted by the mass of dealers. It can readily be seen how absolutely

essential such a standardization is in these and many other lines of industry.

5. *Inspection of meats as a commercial and sanitary measure.*—To provide clean, wholesome and healthful meats for all is one of the problems of civilization. Altho in the past when farmers provided their own meats and when local butchers supplied villages and cities it was possible for individuals to have some supervision of their supply, that is no longer possible in our large towns and cities. There must be some careful inspection and this inspection in part has been taken over by the Federal Government. The states have not yet undertaken the inspection of meats on a wide scale, altho in many states, as in New York, great care is taken to protect herds from tuberculosis, foot and mouth disease, and other diseases affecting meat-producing animals.

In spite of many sharp criticisms of the Federal inspection service, fraud and carelessness having been charged from time to time by magazine writers, much has been accomplished. Inspectors see the animals when alive, are present when they are slaughtered and inspect them afterwards. The Federal authorities, however, inspect only about one-half of the supply. Probably two per cent of the supply is diseased and should be condemned. Naturally, the diseased cattle are likely to be shipped to places where there is no inspection. The Federal inspection service covers the packing establishments whose products go into

interstate commerce, some eight hundred in all. Inasmuch as these great packing houses are mostly in the West and the cattle are those taken from the ranges, the probability is that the cattle slaughtered in these establishments are those less subject to disease, and the dairy cattle in the East are more likely to be infected with tuberculosis.

6. *Inspection for the export trade.*—A prominent influence in establishing and maintaining our meat inspection law was the action taken by some foreign governments, especially Germany, against the importation of American meats, the alleged ground being that the meat was diseased. There was at the time more or less trichinae in American hogs. Numerous cases were found in the American population as well as some in Germany, and it is probable that some of the cases were those of people who had eaten American pork, the custom of eating uncooked ham being common in Germany. Aside from the fact that there was some ground for believing that American meats were unsanitary, was the consideration that German farmers, especially the great land owners, were feeling the competition of American imported meats, so that the exclusion of American pork was based largely on commercial grounds. The prompt action of our Federal Government in creating an inspection bureau that could be well enough organized to control absolutely all exported meats gave our Government the opportunity to bring pressure to bear upon Germany

to revise its laws and to permit the importation of American meats.

The study of the problem by scientific experts has made it possible to prevent complete loss, even when animals are afflicted with certain diseases. Some diseases being purely local in their nature, the greater part of the meat is not tainted by them. Other diseases which render meats unfit for food, do not destroy their utility for certain manufacturing processes. All these facts, however, merely emphasize the need of skill in inspection, such inspection to be universal, and rigidly enforced.

7. *Pure food laws.*—In the United States no effective food laws were passed until 1883 when the state of Massachusetts passed an act containing what have since become the fundamental principles of the food and drug acts of the various states and of the Federal Drug Act.

In 1905–06 public sentiment was greatly aroused by exposure of food frauds resulting in the passage by Congress of the Food and Drugs Act, which was approved June 30, 1906. From the standpoint of public health as well as public honesty, the act is one of the greatest importance.

This act is intended primarily to prevent the adulteration of food and drugs. Drugs must not vary from the standard recognized in the national formulary unless the degree of the strength, quality and purity is stated on the container in which it is offered for sale. Food is adulterated if any substance has

been mixed with it so as to reduce its quality or strength, or has been substituted wholly or in part for the article itself. It is also adulterated if any valuable constituent has been abstracted or if it has been so treated as to conceal any damage or inferiority, or if any injurious ingredient has been added, or if it consists in any degree of filthy or decomposed animal or vegetable substances or any portion of an animal diseased or that has died otherwise than by slaughter. Preservatives may be applied externally to food products if directions for their removal are printed on the package. Articles may not be misbranded by placing any design, device or statement on the package or label which shall be misleading in any particular, and misbranding is to be prosecuted the same as adulterating. The dealer is not held liable if he can show a guarantee from the seller residing in the United States that the goods are not adulterated or misbranded.

The Bureau of Chemistry, Department of Agriculture, is the tribunal to decide whether any specified food substance is deleterious.

The enforcement of the law has doubtless been very helpful in restricting greatly the use of many patent medicines, injurious in their character. On the other hand, by compelling manufacturers to label their goods so as to disclose clearly their contents, it has enabled consumers to buy with full knowledge of their purchases and is tending to benefit honest manufacturers of wholesale products. In this way it has

been promotive of trade of the better sort. Again, by its rigid enforcement it has been protective of the honest manufacturer and dealer, and has freed him largely from the pressure earlier brought upon him by his competitors to deceive his customers. It is thus promotive of wholesale honesty.

It would, of course, be very desirable if we could have one uniform system of pure food laws that should be enforced thruout the country, instead of a burden of laws varying from state to state.

Of course, there is an added burden of cost in pure foods. Cleanliness costs, but for that the consumer is glad to pay. Moreover, when one reads accounts of the deceptions that have been practiced in the production of many common articles of food, such as canned fruits and vegetables, one sees the advantage of rigid laws rigidly enforced. In certain reports printed in the *Scientific American* we learn that cannery waste such as skins, cores, decayed parts of tomatoes, partly spoiled fruits and similarly spoiled material can be worked up into catsups and soups by dosing them with chemicals, spicing, coloring and flavoring them and otherwise preventing them from fermenting. Against such abuses the public ought to be protected and should be glad to pay the cost of protection.

Perhaps no other single question in connection with the food supply has caused more discussion than that of securing a fairly safe milk supply at a cost not prohibitive. The problem has not yet been solved,

but any energetic and efficient board of health can accomplish much. Herds of cattle can be inspected, the milk itself can be regularly tested and measures can be taken to prevent the consumption of any milk containing injurious germs. Probably the Health Department of New York has done more to insure a safe milk supply than the board of any other city in the world. Its work should serve as an example for others.

8. *Banks and insurance companies.*—Entirely different in nature is the inspection of various types of business establishments to see that they carry out provisions of the law made for their regulation. In volumes 16 and 18 will be found the main provisions of the laws regulating the issue of bank notes, the holding of necessary reserves, the checks upon investments of savings banks and life insurance companies. Both the Federal Government and most state governments have provided for the inspection of such institutions in order to see that their patrons are duly protected. It is impossible, of course, for the average depositor in a bank to guard his own interests. He is not able to investigate, nor has he the technical knowledge and skill required.

9. *Protection of the public by examination and certification of certain professions.*—Among peoples in earlier stages of advancement, individuals have usually been free to make their own reputations and to use any means that they thought wise to get themselves before the public. Medicine men, soothsayers,

fakirs, holy men, by various devices have attracted and secured the confidence of others. They have used or abused this confidence. They have benefited or wronged those who trusted them. They have prospered or suffered and have caused their customers to prosper and suffer without interference by the proper government authorities. At times heads of the state or tribe have been their chief patrons; and sometimes in case of discovery of gross malpractice these same patrons have inflicted swift vengeance. Even in our own country until a late day there has been but scant regulation of physicians, lawyers, teachers. Any one could practise if he could find patrons.

At the present time, however, all civilized states attempt to protect the public against fraudulent practices. Most states, largely at public expense, provide for the training of doctors, lawyers and teachers. Physicians are not permitted to practise and to earn their living thereby until they have been duly examined by properly constituted governmental authorities and have been certified as duly qualified both by learning and by character to practise their profession. Similar examinations must be taken before lawyers can offer themselves for pay as formal legal advisers to the public. Teachers also must pass examinations as determined by law and be duly certified before they may be engaged by the public authorities to teach. In most of our states, private schools are subject to inspection by the educational authorities; and, if the results of such inspection show that the school

has not attained certain standards of excellence, its methods and teachers must be changed or the children attending will not have fulfilled the legal regulations regarding school attendance.

10. *Certification of other servants of the public.*—In order to protect the public this work of examination and certification has been widely extended in many directions. Persons are not permitted to run steam-engines, nor to act as pilots in our harbors without licenses given as a result of examinations. In most states chauffeurs are required to submit to tests and receive a license to run a motor car. In certain states barbers are not permitted to practise their profession until after due examination and license. The tendency seems to be to extend the laws to practically all kinds of occupations where malpractice or mistakes may result in injury to the health of individual patrons who are themselves for any reason unable to make proper investigation as to the qualifications of those whom they employ.

Altho protection to the public is the reason usually assigned for such laws, the promoters are often men in the trade or profession who wish to lessen competition by excluding all those who cannot pass such examinations. The commercial spirit doubtless in many instances works under the guise of the promotion of public safety.

11. *Quasi-official privileges.*—Certain classes in the community by virtue of the fact that they have certain certificates granted them either by the Govern-

ment or by boards recognized by the Government are given privileges that are semi-official in their nature. Men who have been licensed to preach by the constituted authorities of their church, whatever its denomination, are thus recognized by the state. Marriage in the United States under our laws is a civil act, whatever its religious character may be in the minds of individual citizens. Because the marriage ceremony has very generally been considered a religious act, it has seemed wise to the state to give the power of uniting a man and woman in marriage to certain government authorities, such as justices of the peace, aldermen or mayors of cities, steamship captains on the high seas and consuls abroad, as well as to ministers of the gospel. These men are required to make returns to the proper public offices for record after performing marriage ceremonies. Their act of performing the ceremony is recognized in the United States as sufficient to make the marriage valid. In many countries, for instance Germany and France, the minister is not given such power. The legal ceremony must be performed by a government official. The religious ceremony, usually performed in the case of people of the well-to-do classes, is purely a ceremony for the satisfaction of the parties concerned and has no legal validity.

Such grants of power are, of course, beneficial in many ways, primarily, however, in that they afford personal satisfaction to large numbers of people in the community and serve also to encourage the main-

tenance of religious feeling. It is a good thing to have the sanction of the church. On the other hand, however, persons who have other business besides performing such formal legal duties, are often very remiss in carrying out the legal work. It is desirable that proper records be kept in public offices of births, deaths and marriages. Physicians whose duty it is to register births and deaths, and ministers who should record marriages are often careless in making returns, and in this way public interests suffer. Generally speaking, business is better performed by a man who devotes his time to it instead of by one to whom it comes as a mere incident.

12. *Limitations of inspection.*—As has already been intimated, government inspection of late years has been greatly extended and seems likely to enter many fields that have hitherto been considered strictly private. Sanitary inspectors enter our houses to look over the plumbing; our children are submitted to examination of eyes, teeth and skin in school; our births, marriages and deaths are recorded and certified to by public authorities. Where shall the limit be? It seems clear, in the first place for business reasons, that in order not to hamper individual initiative, but rather to stimulate invention and creative thought, government supervision and inspection should be limited as much as can be done without detriment to the public welfare. On the other hand, the interests of individuals are so intertwined in business; and, especially in the great cities, the acts of each individual are so

likely to affect the welfare of his neighbors without any possibility of their defending themselves against infection and other forms of injury, that public welfare demands inspection wherever carelessness or the vicious intent of individuals may seriously injure others.

Not only business and health demand careful consideration whenever the question of public inspection is raised, but social and ethical reasons require care no less. The privacy of the individual is a right that should be protected as far as possible. The intimacy of the home ought not to be unnecessarily invaded. An individual cannot grow morally any more than he can grow physically if he is continually hampered and if he is not allowed the free exercise of judgment and decision—and yet he must not be permitted to injure his fellow men. The rule for a limitation of government inspection must insure public welfare while at the same time attaining the best development of individual citizens.

REVIEW

Explain the need of standards in buying and selling; also the business need of the standard of time.

How are the records of the standards of length, weight and volume determined and preserved?

What is a dollar?

Is it essential that standards be maintained by governments or may individuals or associations of business men fix and maintain them?

In what way does the inspection of meats affect the export trade of the United States?

What are the essential provisions of the United State Food and Drugs Act?

Why do the provisions of pure food laws increase the cost of foods?

Ought Christian Scientists to be permitted to treat sick people? Why?

Ought teamsters, accountants, salesmen, grocers and street cleaners to be compelled to take out a government license before doing their work?

Ought clergymen to be permitted to marry people until they have secured a marriage license from duly constituted authorities?

What limitations would you place upon governmental inspection of business?

CHAPTER VI

PROBLEMS OF EMPLOYMENT

1. *The labor contract.*—Sir Henry Maine, one of the greatest authorities on social conditions, has said that the profound difference between societies in early days and at present is that then they were based upon status, now they are based upon contract. Formerly, people were born into their positions, duties and rights; now they choose them. Then custom decided their relations to one another, now contracts decide.

Practically all of modern life is based on contracts, leases, purchases, marriage, banking, railroading, manufacturing, and not the least important, the relations of employers and laborers. The values directly involved in American labor contracts cannot amount to less than ten billion dollars yearly. These figures, however, give little idea of the far-reaching importance of the labor contracts. They affect wages no more than they affect health, social conditions, morality. It is scarcely too much to say that upon the wisdom, fairness and fidelity with which labor contracts are framed and carried out depends the continuance of civilized social life. The determination of wages, work and hours are directly stated in the contract, while the varied conditions of work, responsibil-

ities of the employer, physical environment, and such matters, are indirectly stated. After all it is the smaller part of the contract that is stated formally; other parts are read into it by natural conditions and laws.

2. *Constitutional limitations.*—The legal regulation of the labor contract, owing to changes in public opinion and at times to wrong motives of the parties, is of the greatest importance. Generally speaking, the policy of foreign countries has been broader than that of the United States, and is generally less bound by constitutional limitations.

In the United States, at the time our earlier constitutions were framed, there was a great jealousy for personal liberty and rights. The hands of governmental officials were rather firmly tied. Moreover, the American courts have generally shown an inclination to interpret these constitutional limitations rigidly. In consequence, many attempts to promote the welfare of laborers in ways that seemed to limit the right of individual contract have been declared unconstitutional.

To the contrary, however, the courts have upheld the right to assume control over services of many kinds, thru the power granted Congress to regulate interstate commerce, even upholding a law excluding children from a great part of industrial employment by prohibiting the carriage of their products in interstate commerce.

Again, under the so-called police power of the states

and of the Federal Government, many kinds of industries have been placed under rigid control to secure the welfare of the people even tho the liberty of contract is thereby limited. By governmental action buildings are destroyed to check fires; diseased animals are killed; persons liable to spread contagion are quarantined—sometimes for long periods.

3. *American labor policy.*—Only lately has America become the leading industrial country. Even now we cannot be said to have any uniform labor policy, tho one seems to be gradually forming. The Federal Government forbids the importation of aliens under contract; some states forbid their employment by the state government. Other laws forbid the employment of the intemperate or the color-blind in certain callings. Wages must generally be paid in lawful money, and the time, manner and even the place of payment are regulated. So necessary, however, for the development of the individual is the assumption by him of personal responsibility, it has been deemed wise to move slowly in the direction of limiting freedom of contract, exceptions being made generally only in connection with the employment of women and children. It should still be kept in mind that liberty does not mean necessarily the mere freedom from control by governments and laws. We are dealing also with natural forces, with other individuals, and often certain regulations by law may really enlarge liberty. Traffic regulations and the warning hand of the traffic policeman really increase the freedom of move-

ment thru city streets. Like restraints increase the freedom of exit from burning theatres or factories.

4. *Results of regulation.*—On the whole the results of regulation in most countries have doubtless been good, tho not in all respects. Usually the most rigid restrictions are found in countries with the greatest economic advancement. For example, Massachusetts and New York have not suffered generally in competition with other states. It is not good business to waste laborers. It is good business to take the best possible care of those who work.

It is desirable that in a country like the United States the regulations be made more nearly uniform either by concerted action among the states or by the transfer of power to the National Government. Usually the better plan has been regulation by industrial commissions that have had a rather wide discretion than by severe laws enforced by untrained officials.

5. *New needs of modern industry.*—The great changes in modern life, especially those brought about in the latter half of the eighteenth century and the first years of the nineteenth in the so-called "industrial revolution," have created many new perils as well as new needs. People now have greater resources, greater opportunities for the development not only of their bodily but also of their intellectual, aesthetic and spiritual needs, and yet with these new opportunities have come many new dangers. In those days little was known of public sanitation; surgical skill

was rudimentary; the nature of the germ diseases was unknown. Modern improvements in these directions have doubtless increased the length of the average human life by a number of years. A century ago wage earners had no abundant supply of wholesome water, no serums for the cure of diphtheria or lockjaw, no antiseptics in surgery, no public hospitals, but they lived more simply, they worked more slowly, they were not so liable to industrial accidents from complicated machinery or railway trains. Yet it is certain that these increased perils of modern life have been more than offset by the additional preventives and protections against disease. This fact, however, is of course no reason why these protections should not be extended and our modern life continuously improved. Such improvements are desirable not merely from the humanitarian and social viewpoint, but also from the purely economic viewpoint. Accidents and disease are expensive. Safety, sanitation, good health are profitable.

6. *Extent of losses.*—It is impossible to give an accurate measure of the losses still suffered thru carelessness, but some indications of the extent of these losses may be noted. According to some of the latest estimates, not less than 25,000 people are killed each year at their industrial work; 700,000 are seriously injured, and the number suffering minor accidents runs into the millions. Mining, railroading and construction work are responsible for many thousand fatal

accidents each year. Altho the total is less in agriculture, owing to the smaller number employed, the proportion is likewise large.

The loss thru sickness among the wage earners and their families is probably even greater. One of the most carefully prepared estimates of the yearly cost of sickness among wage earners places the figures at not less than $750,000,000. However, not all of this can be charged against employment; a large part is doubtless due to unhealthful conditions outside. Aside from the immediate and monetary loss running into the hundreds of millions of dollars a year, the pain and grief of the sufferers and their families should likewise be reckoned for after all the real importance of monetary gain and loss is either directly or indirectly to increase the comfort and satisfaction of human beings. And these satisfactions, social, intellectual, even moral, are largely dependent upon economic and physical conditions. We must not be misled. Modern conditions are doubtless better than those that preceded. Today records are kept, yesterday they were not. We understand conditions better today. All the more reason why we should make greater efforts to improve them still more.

7. *The responsibility for these conditions.*—The last few years have seen a marked change in the views of the most careful observers regarding the responsibility for these unfortunate industrial conditions. Doubtless, in many cases, the workman is responsible, thru his carelessness, for accident; or thru his

ignorance, for disease. But when accident or disease arises from the conditions of the factories or of the work-shops, it is primarily the employer who is responsible. This does not necessarily imply blame for the employer. It does show that improvements should be made thru him.

8. *The part of the Government.*—It was doubtless normal in the earlier days of modern industry for the employers to leave the risk to be borne in large part by the workmen. It takes time to adapt new improvements to living conditions. Moreover, the exigencies of business competition often prevent the best meaning and the kindest hearted men from living up to their own standards. To instal safety devices meant outlay and often a financially dangerous increase of expenses. The competitor, therefore, who cared least about the safety of his workmen might become the strongest competitor in the market. The more kindly employer might give warnings when financial considerations would not permit him to take the expense of assuring safety. Under these conditions the government needed to intervene. Naturally there was not at first any conscious adoption of a new policy. As a definite evil became evident a specific requirement of change was made. Only in the course of time did these changes become so numerous that general principles were recognized. In England, as the first prime seat of modern industry, the practices were first perceived and the first protections taken with the hearty cooperation of the best employers.

The British Factory Acts, it is commonly stated, began thru the Health and Moral Act of 1802. This required the whitewashing of the rooms occupied by apprentices in textile mills and a few other simple provisions for the health and decency of the young workers. Thereafter, gradually, always to meet a specific evil, these Factory Acts developed into an extensive system of requirements for the safety of all classes of workers in all kinds of industry.

One by one different nations followed in England's footsteps. In the United States, where perhaps more than elsewhere principles of individual liberty and individual responsibility lagged, the change came first on a large scale in the years following the Civil War. Since then steady progress has been made. In most instances, as has been intimated, the new legislation has been opposed as an unconstitutional violation of the guaranteed liberty of the employer or of the workman. The laws for health have, however, generally survived hostile criticism. Most of them have proved their worth. Employers now in many cases go far beyond the legal requirements.

9. *Extent of requirements.*—The most minute requirements have been found generally in mining. The work in darkness underground, and the wholesale character of some of the accidents, bring that industry vividly before the minds of the people. Again, the processes of the industry are less varied than those of many kinds of manufacturing so that they lend themselves more readily to regulation. Comparatively lit-

tle has been done in agriculture. Naturally it is the frequency of accident in proportion to the numbers employed that brings about regulation. Farming, altho it involves small risks, owing to the numbers employed, kills in the aggregate more persons in a year than does mining.

At first it was assumed in Great Britain, and to a considerable extent is still assumed in the United States, that the adult male workman can take care of himself. Many more laws, therefore, are found making provision for female and youthful workers than for men. Nevertheless, especially in making provision against accident, both voluntary and compulsory measures have been taken for the protection of the adult male.

10. *Regulation rather than prohibition.*—Generally speaking, processes are not forbidden, but there are some exceptions. In the United States as well as in foreign lands, the employment of poisonous white phosphorus in the match factories has been forbidden. In certain cases women and children are excluded from certain types of work in which they might suffer either bodily or moral injury. For example, they are forbidden to work in mines, in barrooms, in certain classes of work at night. Sometimes for their own sake or for that of the public, they are excluded from the cleaning of moving machinery. Intemperate, inexperienced, or color-blind persons are excluded from railway train service; inexperienced or unlicensed men from positions as mine foremen.

But generally, instead of prohibition we find regulation, so adapted as to eliminate the dangers and retain the benefits of former processes. As a rule, protection from accident rather than from disease has been chiefly in the minds of those shaping the policies, but of late years much more emphasis than formerly has been placed upon protection from the so-called occupational diseases, such as those coming from the use of phosphorus, from lead poisoning, from the use of compressed air, or from illy-ventilated, poorly-lighted workrooms. Sometimes also special emphasis is laid upon provisions for the care of the general health and strength of workmen. There are many provisions for ventilation, sanitation, toilet conveniences, seats for operatives whose tasks permit sitting, against eating and sleeping in workrooms, against too long working hours.

11. *Women and children.*—So general and extended are the provisions regulating the employment of women and children that special note should be made of these. Before the industrial revolution, in the days of the household industries, there were many instances where the employment of women and children was not an evil. Tasks were suited to their capacities, their strength and skill without depriving them of a reasonable amount of healthful relaxation. Usually they were working in the household, not regularly for wages.

With the development of the factory system, however, conditions changed. The work of women and

children threatened the wages of men often to so great an extent that family earnings rather than individual earnings were in danger of becoming the standard.

As the need for regulation developed, specific restrictions adapted to the cases were imposed. Shorter hours was one of the first provisions, interruptions of labor for definite periods at meal times, prohibition of night work in certain instances, the forbidding of the employment of women for a definite period before and after child-birth, the fixing of the age limit for children at fourteen, or in certain cases, at sixteen years, educational requirements, such as proficiency in elementary English subjects, separate dressing rooms and toilet conveniences for women, these and other provisions have all been made with the purpose of improving the general condition of society. The improvement of the health and personal qualities of the women and children makes, not only for the present, but also for the future, better producers, better citizens, better men and women. Special emphasis has been placed, and rightly, upon the unregulated employment of married women and mothers of young children. The interference of unregulated employment with the home has often been the source of most harmful social evils.

It is doubtful too, whether the industrial gain from the steady employment in industry of women and children is so great as has at times been thought. Naturally, there are many individual instances where there is no male supporter of the family, or where, owing to

special reasons, the father's wages are insufficient to cover the family needs and where the supplementary earnings of wife or children are of distinct benefit. The general opinion of the most careful students of the subject, including the best employers, is, however, to the effect that tho temporarily there might be some economic gain in hiring children and women for low wages, such gain cannot be realized permanently by society if it is made thru an impairment of the quality of the men and women who work. Farmers do not put their half-grown colts to plow. They know there would be double folly in working thus early the animals from which they expect to breed for future use.

War conditions have naturally increased very largely the numbers of women engaged in business and have widened greatly the range of those employments. From present indications in both Europe and the United States this experience is likely to result in a marked change. We know better now than ever before the range of adaptability of women and children in industry and this experience will have its permanent effect. Nevertheless, the general principles will doubtless remain that while there are certain gains, at least temporarily, from such employment, there is danger of enormous social loss, and society must see to it, thru proper governmental regulation, that abuses are prevented and that society makes the gains without suffering the losses.

12. *Minimum wage.*—Most prominent among the new movements to aid women workers is that for the

minimum wage. The movement originated abroad in the Australasian Colonies in the nineties, followed by Great Britain in 1909, and France in 1913. In England and her colonies, the laws aimed to secure for workers—men and women—a living wage. In France they began with trades where wages were very low—with the sweated trades. Now they have gradually extended until they include the best paid with the lowest paid workers.

13. *Laws in the United States.*—In the United States, they began in Massachusetts in 1912. In the next year, Nebraska followed, as did also California, Colorado, Minnesota, Oregon, Utah, Washington and Wisconsin. In 1915, Arkansas and Kansas passed laws, while New York, Ohio and Michigan have been carefully investigating the subject. Ohio's constitution in 1912 authorizes the legislature to enact a minimum wage law covering all classes of employes. In all our states, however, the laws are strictly limited only to women and children.

In Massachusetts and Nebraska, the Boards make recommendations, but have no powers of enforcement. Public opinion is relied on. In the other states, provisions are made for enforcement. In Utah and Arkansas, the rates are fixed in the laws. In other states, a Wage Board or an Industrial Commission determines the minimum rate.

14. *Decisive experience still lacking.*—Present judgment upon the policy of the minimum wage must hang largely upon an analysis of principles. In the

United States, the laws have scarcely gone into effect. In British jurisdictions experience has been longer; but its teachings have not yet been ascertained conclusively, if indeed it can be said to have developed its ultimate consequences.

15. *Extent of low wages.*—Low wages, as readers of this volume will judge high and low, are doubtless very common, and women's wages on the average before the war were only some 55.3 per cent of those of men. Of course it must be remembered that the majority of women workers live at home as members of families and relatively few must support others as well as themselves.

This does not prove that women's wages were and are satisfactorily high. It does prove that they are not generally working for less than a living wage, and it invalidates the argument that generally they are oppressed by their employers and that the industries in which they work are "parasitic."

It appears that employers generally—in the United States, as well as abroad—have been disposed to give the experiment of a minimum wage a fair chance; to face temporary difficulties in the expectation of the favorable developments which may come.

16. *Caution in adopting the minimum wage.*—It cannot be questioned that the policy of the minimum wage is more difficult of wise formulation and more difficult of wise or effective administration than almost any other of the industrial policies of modern governments.

It is not unlikely that Massachusetts has marked the wisest course, as she has in so many other questions of industrial control. The possibilities of harm are certainly least where just standards of pay are determined by the most capable experts available, and are then enforced by an influence no less powerful and no more rigid than a well-informed public opinion.

17. *Present regulations beneficial as a whole.*—Except that perhaps they are rather less radical, American regulations of the labor of women and children are substantially like those of foreign countries. Taken as a whole, they doubtless have made for the welfare of the people, even for the industry of the present generation.

18. *New risks in modern industry.*—The desire to improve our industrial conditions should not blind us to the fact that our present conditions are far better than those of any previous age. How many people realize, for example, that in the golden age of English literature, Queen Elizabeth and King James ate meals without forks, using their fingers, and that they had no bathtubs. But the mere fact that improvements have been made is no reason why we should not strive still more energetically for further improvement. The modern laborer lives and works under great hazards of a type quite different from those of former times. Unemployment, for example, with its stoppage of income was formerly very infrequent, and when by unusual chance or by the turn of the seasons, wages might be suspended, a cottage with a plot of

ground, with rights of common, would carry the family along. Nor were there so many industrial accidents causing disablement, maiming or death before the era of powerful machinery. It is quite possible, however, that the accidents and the utter ignorance of sanitation and disinfection on land and sea caused even more illness and death.

19. *Laborer and insurance.*—The well-to-do in these days habitually resort to insurance as a means of covering their exceptional losses of all kinds. In this way they help themselves thru innumerable financial misfortunes.

Insurance should be even more helpful to the laborer. It is not merely the best protection against privation thru mischance, it is the only sure protection reasonably to be considered or advised. Insurance is a wise investment for part of a laborer's savings. It gives nothing to those who do not need it; to those who do, it provides assistance more complete than they could possibly have provided for themselves, and that at a cost small for each because paid for by all. And yet wage earners, speaking broadly, seldom seek insurance, partly because they do not appreciate its benefits, partly because they lack money.

20. *Social insurance.*—All insurance is social by nature, but the expression "social insurance" has come to mean insurance provided or administered under public authority for the great body of the people, practically all wage-earners. Then too, it is provided for its beneficiaries at a charge less than its full cost so

that either society as a whole or some social group like employers bears part or all of the expense.

Such insurance ordinarily provides against several of the commonest misfortunes: death, industrial accidents, sickness, invalidity, unemployment. Social insurance is a new policy but one that is rapidly spreading.

21. *Life insurance.*—Fraternal societies and mutual insurance associations provide a small amount of life insurance for the wage earners. The American "industrial" companies sell very large amounts to the same classes, having now outstanding nearly 30,000,000 policies for an amount of some $4,000,000,000. Much of this insurance is unsound, where carried out by assessments, or costly because the people make the cost of collection so high. Sometimes it is both.

Governments have done little on the whole to provide simple life insurance in amounts and on terms possible for the average wage earner. A beginning has been made in Great Britain, France and a few other countries, tho there are differing opinions regarding its advantages to society. Italy has assumed the monopoly of all life insurance. Massachusetts has fostered insurance thru publicly supervised savings banks. Wisconsin has begun the issue of policies directly by the state. None of these voluntary systems has accomplished much. If the cost of collection from the wage earners could be lessened much more could be accomplished by private companies.

22. *Workmen's compensation.*—Insurance against

industrial accidents, commonly called workmen's compensation, is the most widely practiced and most generally approved form of social insurance. First brought into operation in Germany in 1884, since then it has spread to nearly every advanced industrial region of the world, to every quarter and corner of Europe, to Australasia, Africa, Canada, Japan, Mexico, South America, Cuba. Tardily accepted in the United States in 1911, within the brief space of seven years it has passed to thirty-eight of the states and territories, which have more than three-fourths of the population of the country and more than three-fourths of the industrial employment.

It has already been intimated that altho many accidents are caused by carelessness of the workers, on the whole, they should be looked upon as practically unavoidable. It is not in human nature never to relax attention even when a second of carelessness may mean personal injury. Safety devices and attention will prevent many accidents, but on the whole, most accidents are to be looked upon as a normal risk of the industry and therefore chargeable to the costs.

23. *Employers' liability.*—Formerly the employers' liability laws were intended to hold employers to some measure of liability for injuries received in their service. In practice, however, they paid for liability insurance and the insurance companies with their able legal staffs and vast resources brought it about that very few, probably not more than one in five, received any compensation and he usually little. In conse-

quence of this fact largely, the principle has been changed as indicated.

Altho the laws vary greatly in the seventy-odd different statutes covering this field, there are three essentials of a workmen's compensation law that may be mentioned.

1. All ordinary questions of personal responsibility for accidents must be waived and awards must be made for all but the most unusual injuries.

2. The sums to be paid for the different injuries must be fixed in advance by law.

3. The law must be simple, prompt and inexpensive in its administration.

As reasonable supplements to these provisions, the employer is released from any other liability for personal injuries to his employees, and the employee is often safeguarded by a requirement that the prompt and full realization of his limited awards be assured him.

24. *Scope of compensation laws.*—There is a strong tendency everywhere to limit the compensation laws to the most dangerous occupations such as manufacturing, mining, transportation, building, and to omit agriculture, domestic and personal service.

In most jurisdictions only accidents are compensated, but in some, notably in the United Kingdom and in some other British territories, express provision is made for occupational diseases. Commonly benefits are forfeited only by serious or wilful fault of the injured in bringing about the accident.

25. *Limited benefits.*—In the way of broad generalization and very rough averaging, it might be said that the total losses thru injuries are halved, the benefits covering one half and the sufferers enduring the other. But there are hundreds of modifications of this principle and departures from it. There are the most varied provisions for temporary, permanent, partial and total disabilities, for death, and for the benefit of the several classes of dependents who may be left at death, besides usually a modest allowance for the burial of those fatally injured.

Nearly everywhere provisions are made for the curative treatment of the injured. And, as the common interest of employer and employe in the promptest and completest possible cure is recognized, these provisions are made more generous in amounts or in duration, or in both.

26. *Assurance of benefits.*—Commonly, and in most American states, benefits awarded are given some special security, as prior lien against employers, and exemption from attachment or other similar process. American employers, and foreign ones too, are usually required to insure their liabilities in some way; in the readily available commercial insurance companies, in specially constituted mutual associations, or in accident funds carried by the state.

27. *Simple administration.*—In most jurisdictions administration of the laws is simplified by committing it to special boards or commissions, which are free from the technicalities of the law courts and are both

allowed and required to proceed as informally and summarily as may be consistent with prompt and substantial justice.

28. *Results of workmen's compensation.*—The apparent results of the workmen's compensation systems are several very great gains. Injuries are looked after much more promptly and carefully, so that their consequences are much less serious. The better medical care has done a great deal to mitigate the sufferings of the injured, and the cash benefits relieve their families and generally reduce the evil consequences of uncompensated injuries. Much the best of all are the measures for prevention of accidents. The most vigorous and helpful American movement for "safety first" is unmistakably greatly stimulated by the compensation laws.

The cost for employers has been considerably greater than they had to carry under the old liability laws, varying widely, from a minor fraction of one per cent of payroll in such occupations as silk manufacturing to 10 per cent or more in some of the most dangerous forms of construction.

29. *Health insurance.*—The losses caused by sickness among working people are much greater than losses thru industrial accidents, being computed for the United States at no less than $750,000,000 yearly. Yet comparatively little has been done by way of insurance or other provision against these losses. Fraternal and mutual associations, labor unions, employers' establishment funds and private commercial

insurance have done a little; but in the United States all of these together do not cover much more than one per cent of the computed losses. Germany early recognized the gravity of her problem, and one year before organizing workmen's compensation she established a broad system of compulsory insurance against sickness. Since then nine other European countries have followed her example, Austria, Hungary, Great Britain, Russia, and five smaller states. In the United States for some few years now there has been an earnest and growing agitation for the adoption of the policy here.

30. *Field and scope of health insurance.*—Generally the scope of health insurance is approximately as broad as that of workmen's compensation; even broader in so far as it often includes others than wage-earning employes.

The sickness covered includes not only industrial diseases but general maladies also, and commonly the confinements of women. Indeed, Italy, not having gone so far as a general system of health insurance, has made special provisions for women lying-in.

31. *Benefits under health insurance.*—In a general way the benefits under health insurance resemble those under workmen's compensation. Medical care is provided, with more or less generous allowances for medical supplies, trusses, crutches, and the like. Often there is an award for burial. With some important limitations, there are everywhere cash benefits, sometimes half of wages, as in Germany, sometimes a

higher proportion, as in Norway, sometimes modest flat sums, as in Great Britain.

32. *Sources of funds.*—On the assumption that environment of employment, general conditions for which the state is responsible, and the personal conduct of the insured combine to produce disease, costs are usually apportioned to the employer, if there be one, the insured and the public treasury. Perhaps most often employer and insured pay equally, while the state pays a smaller sum than either.

33. *Administration and its peculiar difficulties.*—Administration cannot be made as simple in health insurance as in workmen's compensation for accidents. Accordingly, much reliance is placed upon whatever trade or fraternal associations there may be found already in existence and adaptable to the work in hand; or special bodies of the insured are organized specifically for the purpose of the insurance.

For various reasons difficulties have developed, especially in the United Kingdom, in the selection of the medical staffs and the general organization of the medical care. It has proved very difficult to reconcile professional jealousies and the whims and prejudices of the sick with the necessary conditions of solvency in the funds and practial efficiency in their use.

34. *Results of health insurance.*—In Germany and other continental countries, where the systems have had time to show their natural results, it appears that much good has been accomplished by health insur-

ance. Better medical attention has been enjoyed by great numbers of the sick. The massing of large funds has made possible many helpful measures for public loans to build institutions, hospitals, sanitoria and the like. A great deal has been done for the prevention of disease, by sanitation and the instruction of the people. But so far, for various reasons, this form of social insurance makes comparatively slow headway in the world.

35. *Insurance against invalidity and old age.*—Quite distinct from accidental injuries and from disease is that invalidity, or incapacity for self-support, which may come in earlier years but comes with very sad frequency in old age. Figures too gloomy for comfortable reading have been prepared to show what great numbers of working people, in this age of strenuous demands upon workers, are early incapacitated for self-support and pass into a period of helpless or partial dependence. Here and there, within narrow fields, adequate remedy has been provided by great corporations and other wealthy employers who have pensioned their aged and incapacitated employes.

Voluntary systems of saving under government supervision or administration have proved insufficient in Great Britain, as in Massachusetts and Wisconsin, if these states may be cited. Substantially the same have been the results in lands where government has undertaken to add to the sums which may be laid up by the poor, as in France, Belgium and Italy.

36. *Compulsory old age insurance.*—By an act of

1889, not many years later than her laws for workmen's compensation and health insurance, Germany established a system of compulsory insurance against invalidity and old age, making it thus one of the three parts of her political plan of social insurance. In its most general aspects the third system is like the other two. Employers, beneficiaries and the state contribute to funds which are administered by district associations under governmental supervision. France and a few smaller countries of Europe have somewhat similar systems.

37. *Old age pensions.*—As distinguished from old age insurance, to the support of which beneficiaries contribute, old age pensions are commonly understood to be payments without previous contributions by the pensioners. Old age pensions of this character are provided by laws in France, the United Kingdom, Denmark, Belgium, Australia, New Zealand, Arizona and Alaska. They are variously limited, and the payments are usually very small. For these reasons their beneficial results have not been marked. For us the recent adoption of this most radical policy in the United States has a peculiar interest whichever way it may result. It appears that the Arizona law is in a fair way to be finally adjudged unconstitutional.

38. *Insurance against unemployment.*—The sufferings of the working classes thru the involuntary idleness of their breadwinners are too well known to need emphasis. There are, however, extraordinary

difficulties in devising even a moderately helpful method of insurance against unemployment. Many labor unions by their out-of-work benefits may be said to have provided a sort of insurance; public grants in addition to such benefits, first given in the Belgian city of Ghent in 1901 and thereafter in many other European cities, mark the introduction of a government social insurance against unemployment.

Such voluntary insurance against unemployment has not developed widely enough to have an appreciable effect in reducing the evil against which it has been directed. Moreover, in the judgment of many, if not most publicists, it is dangerous in operation and likely to do great harm at times. This fact does not prevent the state from direct action in the way of providing work in times of industrial depression. That action seems clearly advisable at times. Moreover, it is a custom often followed by private employers in times of depression, to do work without profit, often even at a temporary loss in order both to avoid suffering and to maintain the organization at its full efficiency.

39. *Compulsory insurance against unemployment.* —Compulsory social insurance against unemployment, after a brief and unsuccessful trial in the Swiss city of St. Gall, has come to a recent broader trial under the British National Insurance Act of 1911. It applies to some 2,500,000 employes in the mechanical trades. Employers, employes and the state contribute the funds, which may be drawn upon to provide ben-

efits of not more than seven shillings a week for a period of not more than fifteen weeks in any year. There are very elaborate conditions laid down for the prevention of frauds. The latest reports from labor sources in Great Britain are not favorable. These laws have often, it is thought, a pauperizing effect.

40. *General results and prospects of social insurance.*—It may be counted that the new results of social insurance have, in certain lines at least, been beneficial. There have been unexpected developments not to be welcomed—malignery, some weakening of self-reliance, an occasional handicap for an industry—but these do not appear to be of sufficient weight, on the whole, to balance the gains.

In any event, there is no prospect of social insurance being abandoned or even contracted, for the present. Its benefits seem too evident and too much to the advantage of the great body of the people. For these people, public policies will be changed more and more, as the world grows more democratic. In some of its phases probably, it will prove to be truly, generally and permanently beneficial. Its democracy is a strong guarantee of its continuance, but more experience is needed in different countries under differing conditions to determine with any certainty the scope and manner of its best and wisest application.

41. *Federal war compensation laws.*—The statutes of the United States provide compensation to Federal employes injured by accident and the principle has been given enormous extension in recent legislation

growing out of the war. The first step was the provision for compulsory insurance against accident of all seamen on American vessels, which went into effect in June, 1917. Rates for such insurance which is administered by the War Risk Insurance Bureau of the Treasury Department vary with the hazards growing out of the war for different voyages. The insurance is a charge against the owners of the vessel.

Much more impressive has been the extension of the compensation principle to the military and naval forces of the United States. Generous allowances in the case of death or injury in the service are provided by law. The indemnities established are payable monthly. Pensions of course are not new, and while the present legislation bears a considerable resemblance to the disability pensions of former days, yet the spirit in which the law was conceived and the methods by which rates are fixed show clearly the influence of compensation legislation. These indemnities are part of a general scheme for the welfare of the soldiers and sailors of the United States, in which are included allotments from the soldier's pay, in some cases compulsory, and additional amounts as allowances to the dependent families of the fighting men. These need not concern us here, but a brief notice may well be taken of the fourth feature of the legislation—the provisions for soldiers' and sailors' insurance.

42. *Soldiers' and sailors' insurance.*—In order to encourage the officers and enlisted men of the military

and naval forces of the United States to provide for the future of their families and themselves, the Government issued insurance to a maximum amount of $10,000 on very favorable terms to the insured. Premiums are low because the insurance is furnished at cost on the basis of the American Tables of Mortality. The premiums do not have to take care either of medical examinations or of the cost of soliciting business. Furthermore, the extra risk involved in military service was assumed by the United States Government. The Government continues the insurance after discharge from the service for a period of five years at the same rates as before. Moreover, during this period, the insured will have the privilege of changing the original policy into a permanent form of insurance without being required to submit to a medical examination. The new forms are now being prepared. The Government will continue to be the insurer and the rates charged will be, it is estimated, 20 per cent less than those charged for like insurance by standard private companies. The war insurance proved extremely popular. Of the four million and one-half of men and women, (nurses, etc.) who were entitled to take it, these insurance policies were written, it is estimated, for 95 per cent. The insurance risk assumed by the government was in excess of thirty-seven billion of dollars, doubling the amount of life insurance in force in the world. At various times the average policy requested was reported to be slightly in

excess of eight thousand dollars, which indicates that most of the applicants took advantage of the maximum permitted.

REVIEW

What are the main provisions regarding the hours and times of employment of women and children? How do they differ from that of the men?

Is the regular employment of children ever to be commended as a means of preventing idleness and as a means of encouraging industrious habits?

Does the employment of women and children have any appreciable effect upon men's wages? Consider this question in detail.

What is the special need for delay and for caution in the adoption of further minimum wage laws in the United States?

In what ways does the article of the United States Constitution giving the central government the power to regulate interstate commerce affect the labor contract?

What are the reasons why compensation to workmen for accidents should be made a burden upon the industrial plants concerned?

What is meant by the Industrial Revolution in England? Compare briefly the times before and after the revolution?

Indicate the character of the industrial commissions established in the United States and their duties.

What are the benefits and evils of industrial insurance?

Define workmen's compensation and outline the main provisions of compensation laws.

What are the main objections to old age insurance? To insurance against unemployment?

CHAPTER VII

PROBLEMS OF EMPLOYMENT (Continued)

1. *Labor organizations.*—So significant has been the part played in all problems of employment, even those intimately connected with governmental activities, by voluntary organizations of laborers, and so enormously increased has been the exercise of this power both in Great Britain and in the United States by the events of the great war, that a brief account regarding their organization and activities should precede further discussion of the work of government in that field.

2. *Labor unions; Syndicalism* (*I. W. W.*); *Socialism; Bolshevism.*—In current discussions, even at times in the public press, so much confusion exists regarding the various types of activities, largely promoted by the wage earners, that it is desirable to employ careful discrimination. Grave injustice is often done thru failure to discriminate.

The labor union is a voluntary association of workmen formed for the purpose of promoting the interests of its members, which has no real connection with the well-known trade or craft guilds of mediaeval Europe, for those were associations of masters rather than of workmen and had also other important objects be-

sides the industrial advantage of their members. The real trade unions, altho they began in the eighteenth century, acquired no special significance until the great inventions and discoveries of the industrial revolution late in the eighteenth and early in the nineteenth century had revolutionized production and employment thru the establishment of the factory system and like methods of production. Then for the first time the laborer was thrown upon his own resources. His position was no longer that of status. It was fixed by contract. Under former conditions, a skilled man with the certain prospect of becoming a master-workman could bargain satisfactorily with his employer. When hundreds or thousands of workmen of the same class are so organized that their different personalities do not come to the direct attention of their responsible employer, the situation is entirely changed. Naturally, without imputing blame to any one, thru the normal difficulties of change of both customs and mental attitude, the workmen often suffered. Few provisions were at first made for the comfort or health or safety of the workmen. Neither masters nor men knew the ways of safety. Neither knew the dangers of the new industry. The workers suffered for the common ignorance. Wages were low. Hours were long. Conditions needed improvement. Inevitably a struggle for relief began. The formation of the unions naturally followed. These unions became organizations within the separate trades or crafts—trade unions. Altho these separate unions have their dis-

tinct organizations and work independently largely in settling their own problems, it is natural that for their larger common aims, especially in the way of promoting legislation or of conducting on a great scale some organized movement like a great strike, some further organization should develop. This has been brought about thru federation. In the United States the American Federation of Labor is the chief representative. The organization is strictly a federation as its name implies. The various local unions organized themselves into unions of the craft or trade and these again federated into the central organization, the representatives of the different trades being their national presidents.

3. *Syndicalism* (*I. W. W.*).—With the accentuation of working men's problems and the growth in power of the trade unions, it was perhaps not unnatural that efforts should be made to weld into one organization of great power which might act as a unit, all types of working men. In the late '70s and '80s the Knights of Labor developed such an organization, including men and women also from various trades, an organization which numbered at one time probably 800,000 members.

Of late years the Syndicalists, in France especially, but also in other countries, have followed out the same principles. In this country, the Industrial Workers of the World are organized on the same basis.

In these later organizations, however, certain principles have been adopted which are so diametrically

opposed to the practices of the ordinary trade unions, as represented by the American Federation of Labor, that trade unions form an effective check upon the extreme activities of the Syndicalists. The Syndicalists declare an inveterate war upon capitalists, asserting that their purpose is to destroy the industries until the owners are ready to abandon and put them into the hands of the working men themselves. To accomplish this end they advocate sabotage, violation of contracts, the breaking of the laws. Their leaders have been repeatedly arrested and punished for these illegal practices, including personal violence and, during the period of the war, disloyalty. On the other hand the trade union leaders have given notable instances of loyal service and hearty cooperation with the governmental authorities.

4. *Socialism.*—Inherently, socialism has nothing directly to do with trade unionism or syndicalism as a labor movement, but so large a proportion of syndicalists and so many individuals among trade unions have adopted socialistic doctrines and so frequently do the ill-informed group all together, that socialism needs definition here. Socialism is primarily a political policy, that the Government should own and in the way deemed best to itself, manage all industries requiring fixed capital to any large extent. It has had many phases. Its various leaders have adopted various plans, but the fundamental political idea is Government ownership and management of industry.

This governmental policy is usually based upon the economic doctrine most clearly formulated by Karl Marx which affirms that the wages which capitalists pay does not represent the value of the product of the working man's labor utilized by the capitalist. This "surplus value" as Marx calls it, really belongs to the working man and its existence inevitably precipitates class war between capitalist and worker. This economic doctrine is generally rejected by leading economists of all countries who place more emphasis upon the productivity of skilled management of capital itself and of the influence of the employers than do the Socialists. In the United States the leading trade unionists are among the most active opponents of socialistic doctrines.

The Bolshevists and Anarchists represent the extreme types of opposition to formal, strong, governmental organization. The scientific anarchists, often personally estimable characters with philanthropic tendencies, believe that voluntary organizations formed by individuals for the promotion of common aims, private and public, would suffice for social organization without the repressive influence of a government which employs police methods. With these are frequently, perhaps always, associated, whenever an attempt has been made to put such doctrines into practice, the lawless, the criminals and others who feel the restraining hand of organized government. Such groups and such doctrines normally find their most

active expression in times of revolution, such as in the French Revolution in 1789 and the present Bolshevist régime in Russia.

With the rise of modern industry, trade unions have grown with remarkable rapidity. Now they number millions of well-organized members; they have large accumulated funds; many leaders of high character and great ability; and especially since their patriotic activity in war time, they enjoy a large measure of popular approval. In spite of the widely extended organization, however, the unions include in the United States but a small minority of all the workers, probably not far from 10 per cent of those who work for wages. Agricultural workers, personal and domestic servants, from the circumstances of their employment, are not widely organized.

5. *The relations to Government.*—A century ago, the organization of the unions in Great Britain was looked upon as a public menace. The British Conspiracy Laws, enacted chiefly for the protection of trade, were applied to them, and this principle, holding that combinations for the purpose of securing higher wages were punishable as conspiracies, prevailed for nearly one hundred years. Later, however, with the growth of popular political power and the better understanding of conditions, these laws were gradually done away with until, since 1906, all restrictions upon the natural and customary activities of the unions were abolished and the members were

held only as individuals for any personal violations of law.

In the United States, where the British common law has formed the basis of our legal system, a similar policy was instituted but, as issues of great importance had not earlier arisen, little was done before the time of the Civil War. Following that period labor unions multiplied rapidly and their aggressive policies provoked sharp hostility in employers and public authorities. Statutes were enacted to hamper their activities. Anti-monopoly laws were drawn so as to cover combinations of laborers. Finally, the Federal Anti-Trust Law, the so-called Sherman Act, which had been passed apparently with sole reference to capitalistic combinations, was so construed by the United States Supreme Court as to cover combinations of laborers also.

As the methods of the unions have become less objectionable and especially as the "labor vote" has acquired influence, there has steadily developed a strong movement for the relaxation of many of the legal restrictions. Several statutes have been enacted to limit anti-conspiracy laws in their application to labor unions. The most far-reaching of these statutes is the Clayton Act of 1914 which aims at exempting combinations of laborers from the application of any and all Federal anti-trust laws.

Under present conditions the existence of unions is probably not seriously threatened altho, if they were

incorporated, it has been thought by some authorities that they might be dissolved under the anti-trust act even in spite of the apparent safeguard afforded by the Clayton Act.

The union, however, is rarely attacked in the courts; it is rather some activity of the union that comes under court action such as the strike, the boycott, the picket. This distinction should be kept in mind. Every union is secure in its existence as long as it limits itself to purposes of whose lawfulness there can be no question. In this field the unions have undisputed rights to activities of great importance such as the maintenance of systems of mutual benefits; the collection and distribution of information of trade and labor conditions; the support of legislative measures; the making of collective trade agreements with employers and many others.

The strike is the union man's final weapon of offense and defense. Upon this issue American courts have been divided. The New York Court of Appeals has held that the right of one man or of many together to quit work is absolute and that the reasons for quitting cannot be questioned by others. More often it has been held that the quitting of work may be permissible or not according to conditions or circumstances, but motives and results must be considered. If the strike interferes with interstate commerce, it is unlawful. A strike designed to injure an employer is unlawful, aside from boycotts, pickets and other such methods.

It is, however, difficult to draw the line between

workmen's gain and injury to employers, and it is lawful to strike for the striker's gain in wages, hours or other conditions of employment if strikes have several motives, which is to be kept chiefly in mind. The chief cause of guilt seems to be not so much the quitting of work as the methods followed by the men after quitting.

6. *The boycott. Picketing.*—There has been much confusion of thought about the boycott, that is, the turning of business away from the employer whose men have struck, and possibly from others who have dealings with him, in order to help the strikers. In most states boycotts have been condemned as conspiracies. In some others they are not illegal. The principle toward which governmental policy seems to be shaping is that while those directly involved in the strike may turn their patronage from and to whomsoever they choose, they may not combine to force others into helping them by boycotting the others. Likewise as regards picketing, strikers may post pickets to inform any who come that there is a strike or gently to persuade them to remain away. When, however, picketing develops into intimidation and coercion by employing threats, it is generally condemned.

7. *Injunctions in the control of unions.*—As many of the activities of unions may impair the material or immaterial property of an employer, and as employes ordinarily are not financially responsible for damages they may have caused, American courts have adopted the practice of restraining strikers and their sympa-

thizers from doing this thing or that, from striking, from boycotting, from picketing, or from doing other and more specific things; as publishing certain statements or going here or there. As the restraint is effected by the formidable agency of an injunction, disobedience of which is punishable by imprisonment in the most summary manner, workmen have become very bitterly opposed to it. By an act of Congress in 1914, the Clayton Act, and by similar statutes in several states there has been a beginning of legislation to restrict the issuance of injunctions in labor disputes.

8. *Financial liability of members of unions.*—By the decision of a British court in the famous Taff Vale Case in 1901, individual members of trade unions were held financially liable for the acts of their unions; and by the decision of the United States Supreme Court in the so-called Danbury Hatters' Case, finally decided in 1915, this same principle is established in this country. The situation is made especially serious for the union men by the fact that, under the Federal anti-trust laws, triple damages may be assessed for any financial injury which their acts may have caused an employer.

There can be little doubt that the American policy is equal rights for all. The difficulty is to apply that policy in specific cases. Employers, employes and the courts are all feeling their way in that direction. Not only must there be legal equality, but gradually there will develop also actual equality. The conditions that have been brought about by the war will

doubtless in the near future profoundly modify the pre-existing conditions as will be seen under the pressure of national need. Voluntary, harmonious action under the supervision and cooperation of government has attained most remarkable results. It is to be expected that many of these results will be maintained after the period of the war has passed.

9. *Public inspections.*—Aside from the relief of abuses afforded by the courts, it is essential that most regulations affecting the welfare of working men, covering matters of sanitation, hours of labor, protection of machinery and similar matters, be enforced by officials especially appointed for that purpose.

At first it is essential that provision be made for reports of accidents and of such diseases as may be clearly charged to the employment. That this may be properly carried out there must be careful definition of "accident" and provisions must be made for ascertaining the degrees of seriousness of accidents that come under official notice. Improvements have been steadily made in this direction but there is still much to be desired.

At present it is customary in practically all states with proper legislation on these subjects, to have public inspectors appointed to make careful investigations and reports and to see that proper measures are taken for the enforcement of the laws. Previously, public inspectors of work places were inadequate and they were not infrequently chosen for partisan reasons rather than for their technical knowledge and ability.

It is still not infrequently charged that inspectors, for example, of building departments, of tenement house departments, of health departments and others, are not always above receiving bribes to hasten their work and to fail to see things that are unpleasant for the employer or owner. There has, however, been a marked improvement in the quality of inspection. The powers of entry and access of inspectors have been enlarged. Nevertheless, notwithstanding the fact that the employers show much greater readiness to respond to the legal requirements than formerly, it is still essential that there be a corps of competent inspectors whose services are greatly needed in suggestion and guidance if not in enforcement of law.

10. *Industrial commissions.*—In many of the states, provision has been made for the establishment of industrial commissions to which are entrusted the general administration of the labor laws and particularly the development and application of the rules affecting safety. The essential function of the new administrative power is to continually study enforcement of the law. Legislatures may prescribe in law many of the conditions of occupation. They may, for example, specify adequately the contents of first-aid kits for every variety of occupation, but it is inconceivable that the best of known instruments and appliances now will be the best until the legislature can convene again and act. If laws are to be kept adjusted to the rapidly changing conditions of the time, there must be an administrative board with a consid-

erable degree of discretionary power. Legislators should lay down only general principles of regulation, the detailed requirements and administration should be committed to a permanent board which will develop in its permanent technical staff the best and latest knowledge and skill. This principle has been adopted in the most progressive states with marked success.

11. *Results.*—Altho much still remains to be accomplished, there can be no doubt that there has been a decided improvement. As yet the safeguards and rules are imperfect. They are still imperfectly accepted and applied. Machinery is becoming ever more powerful and more rapid, but accidents are now noted and recorded better than before and society has made great progress in the care it takes.

It is just to keep in mind that many employers not only obey the laws but are even well in advance of the laws. Many of the large corporations maintain special safety departments, they have safety committees on which workmen and officials unite to promote the safety of the workmen, for which purpose they spend many thousands of dollars a year. The percentage of accidents is steadily decreasing. It is certain that progress will continue. The world cannot destroy its working men without losing, it cannot preserve them without gaining not only in personal satisfaction but also in wealth.

In earlier days the function of government seemed to be primarily protection and, more largely, protec-

tion against attacks by hostile states, highwaymen, assassins, or thieves. At the present time, murderers, robbers, invading armies (in spite of the lessons of the great war) are, in normal times at least, far less dangerous than microbes, contaminated water, unguarded cog wheels, unfenced belting, smooth and unrailed stairways, imperfectly insulated wires and projecting set screws. More knowledge and more public spirit will impose more rigid standards of safety, and the most enlightened employer, both from thoughtful self-interest and from inclination, will not only follow laws but will actually outstrip them.

12. *Immigration.*—Inasmuch as business is vitally interested in the numbers and character of its people, the question of immigration becomes one of prime importance. It should be kept in mind also that the question is not only industrial in character but it involves likewise religious, social and political questions of every kind. Our future citizenship will consist largely of the descendants of the foreign born.

Before the outbreak of the war in 1914, the annual average of immigration into the United States was some 1,250,000 or more. In the earlier days the majority of the immigrants came from northern and western European stock. In later years the immigrants were primarily from southern and eastern Europe, representing many different races with varying racial characteristics. We need, of course, to avoid race prejudice and not to think that differences in customs imply either inferiority or superiority. Some

of these races will doubtless be of greater economic value than others. Some will become assimilated quickly, others slowly and still others perhaps not at all.

These facts have led the United States as well as Canada, Australia and New Zealand to take certain special measures regarding races widely different in characteristics from our own, such as the Asiatics.

The normal tendency of human beings to seek those of their own language and characteristics increases the likelihood of the formation of social and political cliques that check or prevent assimilation in the United States and that may create dangerous political and social problems. For example, in 1914, 44 per cent of the total Slovak immigration went to Pennsylvania. Between 1900 and 1910 the native born population of Pennsylvania increased only 16.9 per cent while the foreign born increased 46.4 per cent. Again, while earlier immigrants went as skilled laborers into the principal trades and industries, or as farmers purchased lands in the East while American farmers became enterprising settlers on the Western frontier, now a larger proportion of the immigrants settle in the great industrial centres of the East, forming racial colonies in the cities and competing on lower standards with American workmen. These facts and other similar ones make the immigration problem serious. The immigrants must be assimilated and steps must be taken to check the tendency to lower the standard of living. Thoro researches of the United States Im-

migration Commission proved beyond question these evils and dangers. To establish firmly an American standard of work and living; to guarantee a proper distribution of the benefits of our marvellous natural resources and our wonderful industrial progress, and at the same time to maintain the spirit of enterprise, industrial progress and efficiency, it seemed necessary to the Commission to restrict immigration, at least temporarily, and that the country take steps to assimilate the immigrants industrially, to educate them to proper standards of living and to give them the economic, intellectual and moral aspirations of the native Americans.

This policy has been fully justified by the experience of the war. The fact that, altho immigration was cut off by war conditions, the United States has been able to increase its production in almost every line of industry to unprecedented totals, clearly indicates that there must have been here a large amount of slack labor which needed to be taken up before any real shortage of labor could exist.

The labor unions, a very large percentage of the scientific students of the subject and overwhelming majorities in Congress justified this contention, so that on February 1, 1917, a restrictive immigration bill was passed by the House of Representatives over the veto of President Wilson, and four days later the Senate took the same action.

This bill provided for a reading test, with several exceptions to prevent undue hardship.

Now that the war is over, another bill is pending providing for the absolute prevention of immigration for a period of four years, to be followed by restriction limiting the number of immigrants from any one race to a fixed percentage of the naturalized citizens of that race already here.

Heretofore the Government has taken measures to restrict Asiatics much more rigidly on account of the difficulty of assimilation. This is practically exclusion.

13. *Americanization.*—For business, as well as for social and political reasons, it is extremely desirable that immigrants, who are to make their permanent home here, become Americans in mind and heart as soon as possible. The greatest evils of immigration are found in our large mining and industrial centres. Movements to secure a better distribution of the immigrant, especially as farmers upon the land, should be encouraged. The majority of those coming from Italy and Austria-Hungary have been farmers. They should be encouraged to become farmers here.

Again, they need to know the English language, to understand American political institutions, to learn American customs of living and working that they may become an integral part of our nation. Efforts are being made by private citizens, by voluntary associations, by governmental action, thru schools and bureaus, to accomplish these results. Now that the influx of the overwhelming numbers of the immigrants is somewhat checked, the efforts toward their Americanization should be encouraged and strengthened.

REVIEW

Where and why did labor unions originate? Give an estimate of the extent of labor unions in the United States at the present time.

What are the provisions of the Clayton Act of 1914 that affect labor unions?

Indicate the attitude of the United States courts and of the state courts regarding strikes and boycotts.

What is the attitude of the British and American laws regarding the financial liability of members of trade unions?

How far has the restriction of immigration during the present war been responsible for the rapid rise in wages?

If immigration should return to normal at the end of the war, what effect would that have upon the American standard of living?

Why do we openly pass an exclusion law against the Chinese and not favor one against the Japanese?

CHAPTER VIII

PUBLIC SERVICE CORPORATIONS

1. *Public service corporations need special recognition.*—In the business field, there is a group of public service activities which, even in normal peace times, require special recognition and consideration on the part of the Government. First are the transportation interests including steam railroads, ships and boats, street and interurban electric railways and other common carriers both of passengers and property. Second, and of nearly equal importance, are the communication utilities such as the telegraph, wireless telegraph and telephone; and third come the light, heat, power and sanitation utilities, including gas, electricity, water and drainage. Closely allied with these are such other utilities as docks, warehouses, grain elevators and cold-storage plants.

War introduces new elements into the business life of the people. Winning the war becomes of paramount importance, and when the success of the national arms is at stake all other interests must step aside. Such a necessity prompted the Government of the United States to assume direction of the railroads of the country. Early in the war, the Navy Department had taken over the management of wireless sta-

tions and later, when a serious strike was threatened, it took over the operation of the telegraphs and telephones. Finally, shortly after the signing of the armistice on November 11, 1918, the Government also took over the management of the international cables. Aside from directing these public utilities, the Government also exercised control over our industrial life which became in many respects, as we shall see, very stringent until the end of the war. This war control was doubtless looked upon as a temporary phase in the management of public utilities. This did not obliterate their fundamental relations to the public and to the Government. Yet the experiences of the war will certainly modify profoundly these relations. To understand these relations it is best to discuss in this chapter some of the basic principles involved.

2. *Why different from other industries.*—In a number of ways, the relationship between these public service industries and the public is different but more intimate than that in other lines of business. In general, these industries are monopolies, based on legal sanction or natural conditions. Monopolies may be classified as legal monopolies, natural monopolies and capitalistic monopolies. At the present time, we have two general kinds of legal monopolies. Our patent system and the copyright system, which applies to books and printing, both give monopoly for a specified term of years. Public franchises, such as the privileges granted to urban railways for the use of certain streets, also create legal monopolies. These rights are

generally granted to a single corporation. Many of our local utilities are of such a character.

3. *Meaning of natural monopoly.*—By natural monopoly, we ordinarily mean a business enterprise of such a nature that owing to the mere economic facts in the case, there is of necessity a monopoly. It is something that is not at all a matter of law, altho it may be favored with a law—it is simply the outcome of the nature of the business itself. Ordinarily the chief characteristic of a natural monopoly is that it is "an industry of increasing returns" as compared with industries of "constant returns" or industries of "diminishing returns."

While in agriculture generally successive increases of labor and capital applied to an acre of soil, do not bring proportionate returns, in the case of ordinary manufacturers or merchants for every increment of capital and labor added you get substantially an equal return. There is a third class of industries, industries of increasing returns, in which for the addition of a certain increment of capital and labor you get what is more than a proportionate return. Natural monopolies are of that class. After a railroad has been built and has a certain capacity of production, it can carry a certain amount of freight and a fixed number of passengers. If you wish to double the carrying capacity of the road, you do not need to double the investment of capital. In all probability you would need only to add the necessary number of cars and locomotives and a few more employes. To increase freight 25 per

cent, you put on extra cars and locomotives. This principle of natural monopoly—increasing returns—applies not only to railroads, but also to street railways, to gas and electric light companies, and water supply companies.

4. *No reasonable competition between railroads in same territory.*—There can be no fair, reasonable competition with the railroad that meets the needs of a certain district. A parallel line is largely a sheer waste of capital. If the first railroad cannot quite handle the traffic, increase its capacity. If a parallel road is built the only possible way for them to get along together is to combine. If they attempt to compete, it means ruin for both, for neither can afford to stop business or to cut rates in order to increase traffic beyond what would enable it to continue permanently in business.

5. *Public service corporations tend inevitably toward monopoly.*—From the mere fact that the railroad is an industry of this type, it inevitably tends toward monopoly. The same principle holds with street railways. Service is needed on certain streets. One line can occupy the street satisfactorily, but another one cannot be built without great disadvantage to all concerned. There is no room for two different railroads on one street. Moreover, two are unnecessary. It is an industry of increasing returns. If added service is needed, do not put in another railroad but put in additional facilities for the existing line.

A natural monopoly may be also an industry of

such a nature that it will be given a franchise and in that way become a legal, as well as natural monopoly.

The development of water power within the last few years has added another large group of industries to the public utilities list. The utilization of water-wheel power increased from 438,472 horse power in 1902 to 2,471,081 in 1912. Many charges have been made that in a number of cases, particularly in southern and western states, companies have been organized to buy up and control all the water power sites so that anybody wishing to use water power has to rent that power from these companies who have a monopoly. Even tho their rates for water power are lower than the cost of steam power, many of these companies, it is claimed, have enough control to prevent others from getting water power. In this way they are able to restrict development. This again is a type of natural monopoly and it raises the issue whether or not the Government should not own all these water powers. At least, direct government supervision under carefully drawn franchise agreements should be made before these water-power rights are allowed to go into private hands. Otherwise, there will result the conditions prevalent in many of our cities, where a long struggle has been necessary to get back some of the rights granted to public utility companies in former days.

6. *Characteristics of public service enterprises.*— Since these industries from their very nature possess inherent monopolistic characteristics, their relation to

the public is very important. In general we may note four characteristics in all these industries.

The public is peculiarly dependent upon them for its comfort and its progress. Upon good water depends, in large part, the health of a community. Upon quick and reasonable transportation depends business and, just as important, the happiness of the people. Especially is comfort dependent upon the municipal railway system and the ability of the people, with its aid, to extend their range for homes over a wide area. The rapidity of present-day American business depends largely on the telegraph and telephone. Upon good service in gas and electricity, much of our city life thrives. In a hundred and one ways, modern life depends upon the service rendered by these industries.

7. *Substitution impossible.*—Substitution for their service and products is almost impossible. True, the jitney bus has had its day of usefulness but as a permanent substitute for the mass of people it is of little consequence. Motor trucks are used to some extent by the military authorities and industrial concerns because of inadequacy of railroad facilities but as yet this mode of transport is costly. In special cases it will continue to be used and if cheaper fuel is provided, it may well prove an important factor in local transportation, but it will not displace the railways. Kerosene oil might take the place of gas and electricity, but is unthinkable as a substitute in the modern city with its

flats and apartment houses. The public simply must use these utilities or suffer greatly.

8. *Competition impossible.*—Competition in these industries is a practical impossibility. The value and the propriety of monopoly conditions is recognized in the public service corporations. The nature of the service rendered by them gives them rate-making powers that clearly resemble the taxing powers of the Government. Legally, they are distinguished from ordinary private business as they are under recognized legal obligation to provide satisfactory service, to refrain from unjust discrimination and to make their charges for service reasonable and just. Such restrictions are not generally placed on manufacturing enterprises, department stores or other such lines of business.

9. *Assisted by the Government in a peculiar way.*—The fact that the Government has assisted these industries in many ways in a peculiar manner thru giving them the right of eminent domain, money and land grants, and liberal franchises, including the use of city streets, undoubtedly gives to the public a moral and legal right to prevent the abuse of monopoly power or any activities inimical to the public good. The tremendous influence of these corporations on the standard of living and their ability to secure the unearned increment value coming from rapid increase in population, make needful a large degree of public oversight. They must be effective instruments for the

service of the individual citizen and for the development of the country. Their regulation is a necessity. The recognition and expansion of the principle of control of public utilities constitutes one of the most striking features of American political life in recent years.

10. *Bad practices in the past.*—In the early development of public utility industries, this principle was not recognized; there was little or no safeguarding of the public's welfare. Their monopoly characteristics were not so clearly recognized. The public had had no experience with them. The future values of franchises granted were not clearly recognized and they were often chartered for long periods of time or in perpetuity with little or no return. Millions of acres of land of untold value were given in grants to the railroads. City privileges essential to the future growth of a municipality were given to private companies with little thought.

11. *Public service character not recognized.*—Much of the present difficulty in the proper control of public utilities comes from this lack of foresight. The public strives to win back these essentials, so freely given in the past, simply because the public service character of these corporations was not clearly recognized.

Mr. Delos F. Wilcox says:

> Expressions such as traction war, gas fight, telephone controversies, and electric light dispute are familiar to everyone. In the picturesque language of the newspapers and of the street, the public service corporations have long been

described as public enemies, and the attitude of belligerency toward them has become chronic in many, if not in most American cities.

Both sides are coming to a more reasonable state of mind. The principle of regulation is firmly established.

12. *Systematic regulation a recent matter.*—Systematic regulation of public utilities, however, is a comparatively recent matter. It is true, of course, that in some states railroad commissions have existed for forty years or more. The Massachusetts Gas and Electric Commission is thirty years old. The Interstate Commerce Commission Act, the forerunner of Federal regulation, was passed in 1887. In 1906, the Interstate Commerce Law was amended to give the commission mandatory, instead of merely advisory powers with respect to rates to be charged in the future. In 1907, Wisconsin and New York enacted their comprehensive public utility laws. The number of states having such commissions is now thirty-one. The District of Columbia, Hawaii and the Philippine Islands, has each a commission. With the exception of Delaware and Utah, all the states now have either railroad commissions or public utility commissions or both.

13. *Powers of regulating commissions.*—In almost all cases the commissions can prescribe rates to be charged. They may investigate the service rendered by the utilities, and if they find it inadequate, they may direct that new standards be established. They

control the accounting practices. The companies are obliged to make regular and special reports to the commissions at times fixed either by law or by rules of the commissions. Whenever such companies wish to issue new stocks or bonds, they must first get the commission's consent. In these and other ways, the public service commissions enter intimately into the affairs of public utility companies. They act either on the complaint of a dissatisfied consumer or on that of a municipality or an association of some kind, or they may make their own complaints and prosecute on their own initiative.

14. *Commissioners, how chosen.*—The commissioners are either appointed or elected, the prevailing method being to have them appointed by the governor of a state, subject to confirmation by the Senate. In a number of states, however, the members of the commissions are chosen directly by the people at general or special elections. The terms of office of the commissioners are usually long enough to enable them to become proficient in their work.

15. *Commissioners must possess high qualifications.*—The duties of commissioners call for a high degree of ability. In fact, it is generally admitted that the value of any regulating law depends primarily on the ability and integrity of the commission chosen to administer it. It is readily seen, however, that the administration of these laws may be closely linked with politics, and sometimes men whose chief qualification is their loyalty to a political party machine may become commissioners.

16. *Status of regulating bodies.*—The Government generally classifies these commissions as administrative agencies, possessing neither judicial nor legislative powers. In performing their duties, however, they must satisfy the courts both as to their compliance with the authority granted them by the legislature and as to their observance of constitutional guarantees. Sometimes the legislatures have not given the commissions all the powers that are needed to make regulation entirely efficient. More frequently, however, the commissions are hindered by the courts' narrow interpretation of their powers. This is especially the case when there is question of determining the earnings to which a public utility enterprise is entitled. In this important function the courts have practically taken the place of the commissions.

17. *State versus local regulation.*—The regulation of public utilities by the state rather than by the municipality has been the popular program during the last few years, tho many examples of good results and progress have been accomplished under local municipal rule. Those arguing for municipal regulation as against state regulation claim that the latter is favored by the public service corporations who wish to write the laws and use their influence in getting appointees of the right mind; that state regulation has not done so well as municipal regulation; and that it has not eliminated the public utility from municipal politics. Perhaps the strongest argument,

and one that has a great deal of good sense in it, is that state regulation has taken away from the citizens of a municipality their immediate interest in these questions and has had a disastrous effect on the quality of municipal citizenship. Cities, for their right development, should have a large amount of home rule and we must be careful not to break down these strong, local interests.

18. *Advantages of state regulation.*—On the other hand, certain outstanding advantages come from state regulation. The very form of public utility management, now changing so rapidly and in the direction of concentration, makes state control almost a necessity. The tendency toward centralization in ownership in the electric field of operation is an illustration. This has been greatly promoted by the development of the hydro-electric and central power stations which furnish power to numerous plants in certain sections thruout various parts of the country. These corporations are state-wide, powerful financial bodies and are the most important to regulate. In New Jersey, for example, if each local unit were left to regulate as it pleased the activities of the New Jersey Public Service Corporation, rank confusion would be the result, the cost would be tremendous, and it is doubtful if, on the whole, any good results would accrue. A corporation, for many good, justifiable and valid reasons, would rather deal with a strong central state commission than with such a riot of regulation. In fact, few cities can afford to maintain a competent regulating body.

A similar controversy in many ways is found in the clash between the State and the Federal Governments. Here, again, it is growing more evident that centralization of management and capital, with the economic elimination of state lines, is breaking down more and more local state regulation with its forty-eight separate regulating agencies—a cumbersome, expensive and hampering method of operation.

19. *Optional home rule.*—The principle of optional home rule is one that should be given much consideration. Large cities, like New York, Chicago and Philadelphia, are in many ways in a better position to handle these questions than is a state commission. Various items of a regulating program may be left to the city; others can best be handled by the state. A municipality, especially if it is large, should have much to say in the granting of franchises. It may well be given much power over rates and service. The control of securities and the supervision of accounts can perhaps best be handled by the state. For a time, at least, our regulating program should be elastic and adaptable, and we should be most careful not to break down local interest and citizenship in a quick scramble for state regulation. On the whole, however, it would seem as if present tendencies in the organization of public service corporations are making necessary the use of wider governmental units of regulation.

20. *Achievements of regulating bodies.*—The most notable achievements so far have been the tendency toward improvement and unification of accounting

systems, the elimination of unjust discriminations and the bettering of service conditions. At the same time, in most of the industries, rates have had a downward tendency. State commissions found widespread discriminations in the fields of several of the public utilities. In almost every instance, the public utilities have cooperated with the commissions in putting an end to these practices. The Interstate Commerce Commission has practically stamped out the discriminating practices that prevailed up to a few years ago.

21. *Powers of commissions.*—Most laws empower the commissions to prescribe standards of service and they have done so for each of the utility industries. They have also employed investigators to supervise the application of these standards thruout the territory, to the great benefit of the public generally. Except, perhaps, in the electric traction field, where there is a more or less traditional rate of charge, the work has not been seriously interfered with by partisan politics creeping into the ranks of the commissioners. Furthermore, the courts have seldom interfered with commission regulations pertaining to service.

22. *Net income and distribution.*—The regulation of rates involves two important points: First, the total net income which the utilities shall be allowed to earn in each case; second, the distribution of the net income among the several classes of consumers in such a way that all may share equitably in the total cost of the service. The latter feature of rate regulation is a matter of discrimination. The public seems to feel

that it is being duly protected from unjust discrimination thru the commission's supervision of rate schedules.

The first feature of rate regulation—the determination of the aggregate net income—is in a hopeless state of confusion. From an economic standpoint, such net income must be sufficient to attract new capital into the industries. The economist, therefore, is interested, not so much in the manner of determining this amount as in the amount itself. The courts, however, have interposed, for the guidance of the commissions, a legal fiction to the effect that rates may not be reduced below a point that will afford a fair return on the present value of the properties employed in the service. This rule has produced a conflict between the commissions and the courts, the effect of which has been to embarrass seriously the commissions and to create in the minds of the public a distrust of the entire regulation program.

23. *Valuation of properties.*—The valuation of steam railroads, now progressing under the direction of the Interstate Commerce Commission, is crystallizing the opinions of commissioners on the subject of value. They feel that land, machinery, apparatus and equipment used for public utility purposes should be valued differently from similar properties used in competitive enterprises of a private nature. They take the position that the owners of public utility enterprises should be protected from rate reductions only to the extent that they themselves have made

sacrifices in the construction of their plants and in the development of their business. Consequently, they say that when a company has been so prosperous as to earn and set aside a substantial surplus in addition to the payment of operating expenses, depreciation and reasonable dividends, this surplus should not be used as a basis of increasing the net income to be allowed the enterprise in the future. This principle also, they say, applies equally to the increase in land values resulting from the growth of population and to land grants and other donations made by public authorities and private individuals for the purpose of hastening the establishment of public utilities.

The courts, on the other hand, have decided that the constitutions, both state and Federal, forbid the state to take private property for public use without a just compensation, and that when a regulating commission reduces rates to a point which will not permit a public utility company to pay a fair return for interest and profit on the present value of its property, this constitutional protection is being violated. The courts, therefore, require that in rate regulation the present value of the properties be ascertained by the commissions, and that the net income allowed be sufficient to pay a fair return on such value. But in this connection, the courts have not made clear exactly what they mean by value.

24. *Points in dispute.*—By this controversy, rate regulation has been seriously hindered, and the public has come to feel that it tends not only to retard the

regulation of rates, but to defeat the very purposes of the commission laws. It is becoming increasingly difficult for the public to satisfy itself that the lengthy discussions of theories of value serve any useful purpose in determining whether the stockholders of a public utility company have received and are receiving returns sufficient to induce capital to flow freely into the business.

Another point is that the uncertainty with regard to the amount of net income to which public utilities are entitled under public regulation, promotes speculation in the ownership of these public utilities. The very theory of value, that many of the leading court decisions seem to favor, invites investment in public utility enterprises. These are made not only for the sake of a fair return but also to enable a few individuals, usually the promoters of the enterprise, to lay stakes on the probability of unearned increments accruing to land value, increases in commodity and labor prices, and the surpluses from operation. Such promoters are speculators and their interest in public utility enterprises seldom extends beyond the initial period and the flotation of security issues.

25. *Regulation of security issues.*—The public looks to the commissions to put a stop to these practices. In recent years the commissions have been empowered to regulate the issue of stocks and bonds of public utility companies so that such issues may bear a proper relation to the investments actually made. Such supervision, however, touches only indirectly conditions

that have been handed down from the past. There are many who fear that stock and bond provisions may result in establishing the speculative values fixed by promoters in earlier years.

26. *Regulation of public utilities still in developmental stage.*—Up to the entrance of the United States into the war the public regulation of utilities was in an experimental stage. Still more radical experiments are the outcome of our belligerency. Some of the possible results of these experiments so far as the railways are concerned are pointed out in the Modern Business Text on "Railway Traffic." At this time no one can forecast how extensive will be the intervention of the Government in public utilities of all kinds.

If regulation rather than government ownership is to be the outcome, the public and the public service corporations must come to a just recognition of the claims of each other. It is often asserted that the public and the utility corporations are mutually antagonistic. This is not true. Many companies have found that the public is willing and anxious to be fair, if that feeling is reciprocated by the corporation in reasonable rates, good service and an evident desire to meet the public half way.

REVIEW

Why should public service corporations favor state control as against local municipal control?

If public service corporations are regulated as to rates and quality of service, are they not entitled to protection against com-

petition or even undue interference on the part of the local municipality?

What disadvantages would there be in New Jersey following a policy of local municipal control over the Public Service Corporation of New Jersey?

Are franchises for 100 years justifiable from the viewpoint of (1) the company, (2) the public, (3) future generations? Give reasons for your answer.

Why is it claimed that the public and the public service corporations are mutually antagonistic? How can their interests be reconciled?

Under what conditions would you consider trolley lines supplementary to or in competition with a railroad?

CHAPTER IX

LOCAL PUBLIC UTILITIES

1. *Multiplicity of municipal activities.*—No more vital issue confronts public utilities today than the question of government ownership and management. In some countries this tendency has already progressed far. The success, as it is viewed by many writers, of English and German cities in managing street-car systems, gas and electric plants, waterworks and similar utilities, is constantly brought to the attention of the American public. The American city is urged to go into every line of managerial activity, including such varied endeavors as supplying gas and electricity, running traction systems and ferries, managing slaughter houses, public restaurants, markets, bakeries, pawn shops, loan societies, savings bank, and many others, besides providing school lunches and legal aid. Many of these, under certain circumstances, may be desirable activities for a city government to undertake, but as one scans the items on the ever increasing list, one naturally looks for the principles which guide their selection. The discussion in this chapter must be confined to those important municipal utilities around which the main controversy centers. These include waterworks and gas and electric light and transit companies. European cities

have gone into the operation of these utilities extensively. In the case of waterworks, and to a degree in the case of electric light and gas companies, American cities have also made considerable progress toward complete municipal ownership and management. Can any principles of successful operation be determined which would lead one to decide whether or not government ownership and management is generally preferable to private management?

2. *Municipal ownership in the United States: waterworks.*—At the beginning of the last century there were in the United States sixteen water plants, only one of which was municipally owned. By the close of the century there were about 3,500 plants, of which more than one-half were publicly managed. Most of the larger cities of the United States now own their waterworks, the only exception being San Francisco. In general it may be said that there are three publicly managed waterworks to one privately managed plant in the United States. Upon good water depend the sanitation and comfort of a city's population. To obtain these benefits it is necessary, especially in the larger cities, for a government agency to control and to guard water sites, and they generally prefer to manage the plant—chiefly with sanitation in mind. There are, nevertheless, instances of cities wishing to return to private management after testing public management of the waterworks.

3. *Electric light plants.*—Next to the waterworks, electric light plants have the largest percentage of

municipally managed plants. In 1912 there were 1,562 municipally managed electric light companies in the United States; an increase of 91.7 per cent over the number operated in 1902. In comparison with this there were 3,659 privately owned commercial plants with an increase of 30.4 per cent over the number in 1902. These figures are somewhat misleading, however, for when we take into consideration the revenue of the commercial plants as compared with the revenue of public plants, we find the former's gross revenue total was $278,000,000 in 1912, as compared with the latter's $23,000,000. By far the largest number of municipal plants are in cities with a population under five thousand. Of the total of 1,562 municipally owned plants 1,327 serve such cities.

Most of the larger cities in the country are supplied from privately owned plants. The electric light industry is a recent development, so that small cities have been able to undertake to supply this public need without breaking past contracts or, in most cases, competing with private plants.

4. *Gas works.*—Next in order comes the development in the field of gas production. By 1907, according to the National Civic Federation report on municipal and public ownership of public utilities, there were twenty-five municipally owned gas plants in the United States and ten in Canada. Since the gas industry is much older than the electric lighting industry, private plants were organized early and cities

have not been able to enter the field without buying out or competing with existing private plants.

5. *Street railways.*—The United States has had comparatively little experience with municipal ownership of street-car lines. The city of Monroe, Louisiana, with only twelve thousand inhabitants, has such a line. The city of San Francisco, after innumerable difficulties, finally managed to start operating 10.9 miles of track in December, 1912. By the end of 1915, the number of miles operated was increased to about forty. The city of Bismarck, North Dakota, also operates a short street-railway line to the state capitol.

6. *Municipal ownership in Europe.*—In Europe, the movement for municipal ownership has gone much further. Mr. Frederic C. Howe in "The British City" gave the following figures for England:

ENGLAND

Kind of Enterprise	Public Undertakings No.	Public Undertakings Total Capital	Private Undertakings No.	Private Undertakings Total Capital
Water	1,045	$330,914,491	251	$197,850,964
Gas	256	173,919,089	454	375,348,459
Electricity	334	155,728,000	174	133,838,750
Street Railways	142	199,061,278	154	83,660,551
	1,777	$759,622,858	1,033	$790,698,724

There are also a large number of Continental cities which operate enterprises of this character.

7. *The issue: regulation or ownership.*—These utilities, as natural monopolies, are marked off from the general field of industrial activity by the fact that they cannot be effectively regulated by competition.

With them the Government has one of only three policies to follow: (1) to regulate; (2) to own and manage; (3) to leave alone. The last policy is a recognized impossibility under present social and economic conditions. The local government must either regulate or manage, and the real question before the American public is: Can we have efficient, thorogoing regulation of our private water, gas, electric light and transit systems so as to preserve to the city the advantages of private management and to prevent the abuses of monopoly conditions; or can we secure better or equitable conditions of public service only under a régime of local government ownership and management? This is a question whose answer involves billions of dollars and the health and happiness of a large part of the population of this country. As Delos F. Wilcox, consulting franchise and public utility expert, says:

> Indeed, public utilities are coming to be what might be called an artificial, natural environment of urban communities. They are, so to speak, the second nature of cities, a supplement to sunshine and the air.

8. *Why municipal ownership is undertaken.*—Municipal ownership has been undertaken for a variety of reasons. In America one important reason is the alleged corruption of officials by the public utility corporations and the resulting wave of public indignation. Newton D. Baker, Secretary of War and former mayor of Cleveland, believes:

that the movement for municipal ownership in the United States is the direct and immediate fruit of the misconduct of privately owned public utilities. . . . The instant result of inquiry was that all sincere and fair observers put their fingers upon the public utilities corporation as at least the greatest contributing cause of the corruption of the American city.

On the other hand, in fairness to many accused of corruption, it must be remembered that there is much justification for the statement made by directors and managers of public utilities, that much of the bribery and corruption came mainly from strike bills and threats by legislators and other officials. Bribery was the surest and cheapest way to secure justice and to save themselves from oppression. It is much nearer the truth to state that now the cities are largely free from a condition of general corruption. In many ways, then, the movement for municipal ownership began rather as a reform than as a business movement. With corruption eliminated, the aspects of municipal ownership in the United States would be completely changed.

9. *Moral aspect of municipal ownership.*—With the move to stop corruption went the idea that under municipal ownership lower rates and better service could be secured. Here again, whether justified or not, the prevalent opinion that the public utilities corporation had as its motto "The public be damned," added fuel to the fires of reform. Again, as Mr. Baker says,

As this expedient, municipal ownership, was in answer to a hitherto corrupting policy, municipal ownership began to

have a certain moral quality in the eyes of those who advocated it. Men who were for municipal ownership were thought to be for honest municipal government, while men who were opposed to municipal ownership were said to be opposed to honest municipal government, and in favor of brutal and gang rule.

These views were often wrong; but that they existed cannot be doubted.

10. *New point of view.*—Within the last decade a broader, more equitable view has obtained, and we are now able to study the problem in a more just and reasonable way. In the eyes of the public, municipal ownership is now seen to be fundamentally an economic policy, while the public utility corporation on its part has been learning that it is not only wise but remunerative to give good service, charge reasonable rates and keep out of politics.

11. *Favorable interest rates secured.*—Some of the economic aspects of the question, are of special interest, particularly that of the financial advantages which are thought to come thru municipal ownership. It is claimed that under a system of government ownership a city is able, with its prestige and with its power to tax, to borrow money at a lower rate of interest than private companies can. A question may be raised, however, as to how long these favorable rates would prevail if municipalities generally went into industry, with possible liability of loss and consequent increase in taxation. It is possible that under such circumstances much of this supposed financial advantage would be lost. And, again, some of the best corpora-

tions can borrow as cheaply as many of the cities—especially the small ones.

12. *No dividends on watered stock.*—It is also claimed that the city need not pay dividends on stock issues, only interest on actual loans. In many instances, private companies have been capitalized far beyond actual investments and wish to pay dividends, in consequence, on watered stocks. Under municipal ownership this juggling of finance, the speculating in profits and dividends on fictitious values, it is claimed, is done away with. As a result, the consumer gains in lower prices and better service. It is a question of fact and of degree. Some cities waste as much in the wrong use of loans as would easily pay dividends on much watered stock. Moreover, not all companies have the watered stock.

13. *Expense of regulation.*—Another saving, and a charge which should be directly added to the cost of private management, is that of adequate regulation. If public ownership does not exist, effective regulation must be employed to overcome monopoly conditions. Effective regulation of transit lines, gas and electric light companies requires a force of experts and careful supervision, and the cost of such regulation is high. The advocates of municipal ownership assert that this cost is a proper charge against private management. But many experts believe that municipal management needs as much supervision as private management, and that the cost of regulation would not actually be saved. Theoretically, municipal

ownership and operation seem to give decided financial advantages. The supposed financial savings, however, are largely offset by other drawbacks and this line of argument generally assumes that equal skill and energy will be available for management, an assumption rarely borne out by experience.

14. *Better labor conditions under municipal ownership.*—On the part of labor, it is claimed that public management means better wages and working conditions. It is probable that in England where labor conditions have been poor, municipal ownership has been seized upon by labor as one of the means by which these conditions may be bettered. The labor party has had great political influence in that country. It is claimed also that the inevitable tendency of private ownership is to force down wages and keep labor conditions at a low ebb. As a result constant friction, frequently culminating in a strike, has been manifest. It is asserted that municipal ownership can do away with these bad labor conditions to a large extent and that under it more equitable conditions will prevail. And yet in Cleveland a few years ago the workmen in the municipal waterworks went out on strike, and, on the other hand, many private companies meet with little or no discontent. Again, if for political reasons wages are raised unduly, the result is an injustice to the taxpayers.

15. *Great betterment in social and political conditions claimed.*—Advocates of public management in-

sist that under such a policy, social, political and ethical conditions are much improved. In fact, many assert that the betterment of social and political conditions is so great as to offset any poor financial results which may possibly be shown in a comparison of private and public plants. Corruption and class struggle are said to be eliminated. Public utilities are looked upon as servants of the people and are run from that viewpoint. Housing conditions, thru city planning coordinated with the traction systems, are improved. The temptation to control or influence the press is stopped. Yet experience in other cities seems to uphold the opposite view. Naturally conditions vary as the poles.

16. *European conditions different from those in the United States.*—All in all, municipal ownership would seem theoretically to give many advantages, but experience does not wholly support this theory. Most of the arguments for municipal ownership come from those who are impressed with the seemingly good results shown by European cities. Here we must be careful about comparative data. We must remember that in England, Scotland and Germany a high type of city government prevails. This condition has been the result of many years of struggle and improvement. The aristocratic social conditions in those countries develop an extremely able type of municipal official. The form of city government favors this type. Homogeneous populations are also found in Europe, whereas American cities in nearly every part

of the country are struggling with a considerable percentage of foreign-born non-English-speaking people. This difference in municipal conditions was seen in 1905, when the mayor of Chicago invited Mr. Dalyrymple, manager of the Glasgow municipal tramways, to confer with him upon municipal management of its street railways, for which Chicago had just voted. Mr. Dalyrymple arrived in the United States a strong advocate of municipal ownership. A few weeks' residence in Chicago, however, convinced him that he had failed to allow for the complete dissimilarity of conditions. He opposed municipal ownership in Chicago.

17. *Municipal ownership in France.*—One also receives the impression from some authorities that the European verdict in favor of municipal ownership is unanimous. In France, however, where Socialism has made much headway and where state management of industrial undertakings is to a large extent prevalent, an entirely different story is told by Professor Paul Leroy-Beaulieu, who gives in full detail the reason why French cities have followed a different plan. The experience in Paris is clear, and the writer is a high authority.

The municipalization of city public utilities, such as street-lighting, motive power, tramways, etc., has not gone far in France, tho it has many supporters, not only among our Socialists, but also among our Radicals. As most of the concessions for gas, electricity, water, and the street-passenger traffic expired in the early years of the twentieth century, it might have been thought for a moment that the Paris

Municipal Council would have municipalized these different services. On the contrary, the Paris Municipal Council has, during the last fifteen years, made new concessions to private companies, in different forms and for varying terms of years, in the matter of all the services mentioned. This is a notable fact, for it was done tho municipalization was advocated by a large and influential group in the council.

The concessions which had been enjoyed for three-quarters of a century by the Paris Gas Company expired in 1905. But the Paris Municipal Council declined to assume the responsibility of directing that industry. It preferred the system by which it became simply "an interested party"—that is, the gas works belong to the municipality, but the making of the gas is done by a company which furnishes the working capital and which shares the profits with the city. In accordance with this arrangement, the city may end the concession every five years by giving the company two years' notice; that is to say, the city is bound for seven years. The first period of five years expired in 1910, without the city making use of this right, so that the present arrangement will last at least until 1915; and everything points to its continuing even longer; especially as the Municipal Council elected in 1912 for four years is friendly to the present arrangement. In fact, at the moment of writing, the city of Paris is negotiating a loan of 200,000,000 francs with which to enlarge its present gas works and even to build new ones to be run under the present concession.

A similar arrangement—that of "an interested administration"—exists with the General Water Company, and in 1910 the city renewed this arrangement for a very long period.

Some thirty years ago concessions, beginning with a period running from 1882 to 1889, were granted to a half-dozen companies, each being given a fraction of the city, called a secteur. These concessions had to do with electricity, heating, lighting and motive power, and all will expire in 1914.

Five or six years ago the Paris Municipal Council united all the secteurs and conceded the city's electricity and motive power for a period of twenty-six years—that is, from 1914 to 1940—to a large financial group called the Paris Company for Electrical Distribution. In the matter of electric lighting and heating, this company has a monopoly; but as regards electric motive power the Municipal Council reserves the right to permit other companies to furnish electric power to the city. Within the last few months a grant of this kind has come up for consideration, so that in this matter of electric power it is highly probable that the city of Paris will adopt a competitive system.

In the matter of urban passenger traffic, the municipality has had recourse also to the concessionary system under different forms and conditions. There are in Paris two distinct subway companies, the older and more important being the Metropolitan, whose concession is for forty years after the opening of the last portion of the road. The city assumes all the cost of tunneling, the company making the roadbed, building the stations, furnishing the rolling-stock and running the road. It gives the city one-third of the gross receipts and a certain portion of the increased traffic when it surpasses a fixed figure. The second subway company, the North-South, has made a different arrangement with the city. The company does all the work of construction, the city simply approving and supervising the plans and their execution and sharing in the profits, this share being based on the number of passengers carried. This concession is for seventy-five years.

And lastly, the city renewed three or four years ago for periods of about fifty years, with large shares in the profits, its concessions to all the tramway, omnibus and auto-bus companies.

Thus, from 1900 to 1910, inclusive, the Paris municipal council has been handing over to private companies under varying conditions for periods extending to 1943 and even

to 1980, all the urban public utilities—electricity, water and passenger traffic, as well as gas, on a somewhat different plan, as explained above.

This system of concessions to private companies, producing a considerable reduction in the prices paid formerly by the public for its utilities, and offering the city considerable participation in the profits, is now both favorably received by Parisians and very advantageous to the city treasury. The public especially approves of the plan by which the city participates in the profits derived from the concessions.

This system is very beneficial to the Paris treasury. For instance, during the year 1910 it brought in 83,000,000 francs, of which 34 to 35 millions were from gas, 27 to 28 from water, 18 from the subway, and the rest from electricity. It is true that these 83,000,000 francs must meet the interest on large loans which the city was forced to have recourse to in order to carry thru some of these enterprises. But it is safe to say that interest and amortizements do not represent more than one-half of the sums which the city receives from these sources; and these sums are sure to increase gradually and notably. Toward the middle of the present century, 150 or perhaps even 200 million francs will be the minimum sum which the city will derive from these urban utilities under the present arrangement, of which sum at least one-half, if not three-fifths or two-thirds, will be net profit.

In the matter of urban utilities, most of the cities of France have copied Paris more or less closely. The exceptions are those towns where the municipal council is Socialist or Collectivist: in which cases some of the utilities, especially that of lighting, have been municipalized. But these are rare exceptions in France, and the experiment has not, as a rule, been a success. The city of Elbeuf, for example, offers almost a tragic case. A few years ago the municipal council and the mayor decided to municipalize the gas. Their initial

step proved most disastrous, and the municipal gas company was run at a marked loss to the city treasury. The mayor, who represented his town in the Chamber of Deputies, was so affected by the situation and the unpopularity into which he fell, that he actually committed suicide. His death was followed by a new election, when the victorious municipal council immediately leased the city gas interests to a private company.

As a result of all this, municipalization is not in good order just now in France. A very striking proof of this has recently been furnished. Consequent of the wide-spread complaints over the increased cost of living, the Caillaux Cabinet brought in a bill authorizing the Paris municipality to establish butcher-shops and bakeries. But public opinion was so opposed to this project that the Poincaré Cabinet, which succeeded the Caillaux Cabinet, promptly withdrew this bill.

It is true that the city of Paris has decided in principle to call for a loan of 200,000,000 francs for constructing, or aiding by loans, the construction of cheap, workingmen's homes, and that the government has introduced a bill to enable French towns in general to do this same thing. But the bill provides that the towns must, as a rule, come to an arrangement with some cooperative or ordinary stock company to whom will be loaned, at a low interest, the funds necessary to build these houses. So the general idea of the bill is that the municipalities will neither construct nor manage these houses. Even the Minister of Labor, Mr. Leon Bourgeois, who belongs to the advanced democratic party, has concurred publicly in this view.

18. *Policy of favoring workmen by reduced rates.*— In comparing American and European cities even in specific and seemingly simple items, such as fares and service, great care must be taken. In considering the relative advantages in fares in one country over another, one must look into the question of the distance

and the system of transfers. Much, for example, is made of the fact that many European cities favor the workmen by reduced rates during the early morning and the evening hours. Yet under private management in the United States and in Canada this system is becoming more extended. Montreal, the largest city in the Dominion, has a rate of eight tickets for a quarter, usable between five and eight o'clock in the morning and from five to seven in the evening, while six tickets for a quarter, or twenty-five for one dollar, can be bought for ordinary travel, and ten tickets for a quarter are sold to school children. American cities are adopting a similar plan.

We have in this country the custom, pretty generally, of a single fare. In most of the European cities it is customary to charge a variety of fares, according to distance. The City of Glasgow has owned and controlled its municipal utilities for a long time. The street railways have an increasing fare. Careful studies have been made of this plan in Glasgow, and it is by no means sure that the plan is always good. In the first place, this rate of fare increasing with distance, which is almost universal in Europe, tends to congest the population within the lowest-fare area. The second point is that as a rule those cities do not have a system of transfers. When you change from one line to another you pay your fare again. So, it is argued, on the whole the average fare paid by the average passenger is about as high as it is here. If a man transfers twice, he must pay three fares.

19. *Poor systems of municipal accounting.*—Again, one must keep in mind the fact that methods of keeping municipal accounts, especially in this country, are usually faulty. For example, Mr. Halford Erickson, member of the Wisconsin Railroad Commission, states:

> One problem that has been very hard to handle is the adjustment of municipal reports. It is the purpose of the Uniform Classification to make utilities of the same class, regardless of form or ownership, comparable with one another. In bringing the accounting procedure of municipal utilities in line with these uniform rules, many more obstacles and difficulties have been met with than in the case of private plants.
>
> It is a difficult task to accomplish any permanent advancement or improvement in the accounting procedure of the municipal utility when the entire municipal system, coupled up with that utility's administration, may be unscientific and inadequate.

An extract from the Fifth Annual Report of the New York State Public Service Commission of the second district for the year 1911, is pertinent in this connection.

> There are in the state two cities and forty-eight villages that operate municipal lighting plants. Such municipal plants are, with a few commendable exceptions, unable or unwilling to adopt the practices of modern accounting. In many instances the bookkeeping is limited to a record of consumers' accounts, and a simple statement of receipts and disbursements, with little or no attempt at analysis or classifications. In some cases the affairs of the lighting plant are so interrelated to those of the water or of some other de-

partment, and the accounts of the two departments are so confused, that it is impossible to determine the actual results of the operation in either department. It is a matter of prime importance, when municipalities embark upon business enterprises, that they should adopt businesslike methods; but the citizens of many a village are convinced that their lighting service is cheap when, as a matter of fact, it is dear, because the lack of proper accounting system fails to reveal the actual conditions.

20. *Modern development affects advantages of municipal ownership.*—One of the greatest advantages for a system of municipal management is that various kinds of public service plants can be coordinated into a single scheme of operation. In this way costs are reduced and much saving in both service and rates results to the public. On the other hand, in the private field two counter developments may be noted. In many cases, street railroads will be found supplying facilities such as electric light and power as well as transportation. Since the same power can be used for a number of different operations, private companies have likewise the opportunity of effecting a considerable money saving in the use of power thru interaction of the different plants. From the point of view of profits and ability to give low rates, this coordination offsets many of the advantages of public ownership and management. In earlier times when one private company supplied a city with gas, a second with electric light, a third with street railways, and a fourth with water, it was apparent that if the city owned all of these the same power might be used to

advantage in pumping the water, in running the street cars and in furnishing the electric light and gas. To a great extent this is true and is a matter of economic significance.

But if these private companies are combined, the saving will be the same. For example, the Public Service Corporation of New Jersey in 1918 was supplying gas and electric light and power for electric street-railway service to 146 municipalities with a population of over 2,126,889 people. As a result, the quality, the price and the continuity of service was superior to what could be obtained from a number of small or struggling enterprises. The Pacific Gas and Electric Company of California in 1918 was operating in thirty counties of central California, furnishing electric light and power to 177 communities, besides furnishing gas, water and street service in many of these cities. The area covered was 37,775 square miles, and about 55 per cent of the population of California was being served. The Central Illinois Public Service Company was serving 131 communities which were formerly supplied with power by 49 separate generating plants. By consolidation these plants were reduced to eight and later to four, capable of producing all the needed energy. The Boston Edison Company now covers an area embracing 700 square miles. This argument for municipal ownership, it is thus seen, is largely superseded by this modern movement in the private utility field. In fact, it would be difficult, even impossible, for a municipally owned

plant to cover such a wide area, as such plants are restricted in many ways in their extension to outside cities, whereas a private company is able to serve a whole state, with the economies resulting from such concentration.

21. *Development of holding companies.*—The development of holding companies in public utilities has recently become important. Thru holding companies, unrelated properties, widely distributed—in many cases over several states—have been brought together under one central control and management. The holding companies do not, however, aim to kill competition thru monopoly. The nature of these business activities, with their essentially local market, makes it impossible for isolated or scattered public utility companies to compete. Thru the holding company profits and losses are averaged, purchasing and operating costs are lessened, security issues are made easier, and thru standardization an increase in service and facilities is made possible and a superior technical ability can be secured. This development is bound to have a great effect in preventing the extension of municipal ownership.

22. *Municipal government still inefficient.*—Much is made of the financial benefits accruing to the public thru municipal ownership. Yet, despite the undoubted great improvement in city management during the last decade, municipal management is still so inefficient in comparison with private management as probably to outweigh any financial advantages which

the advocates of municipal ownership claim. Inelasticity of management, favoritism in appointments, inability of the public to see the value of paying high salaries for highly technical positions, too large a labor force, the inability to resist the political appeal of municipal employes or the demand of consumers, and the lack of initiative so often found, all operate as a dead weight on efficient government management. And yet, doubtless, cases may be found, especially in small cities, where able upright officials run a municipal plant on sound business principles as efficiently as a private company could.

23. *Municipal ownership advisable where health, sanitation and public safety demand it.*—In general, it may be said that in industries in whose conduct health, sanitation and public safety are involved, especially if police protection is required, the larger public interests will usually call for municipal management. This probably is the reason, especially in view of the larger and larger concentration of population, why municipal management of water works is rapidly becoming prevalent. The task of securing pure water and keeping it from pollution, if large watersheds are to be protected, people will generally feel can be more satisfactorily handled by governmental than by private agencies.

24. *Where profit is the predominant motive, private management is better.*—Where profit to the municipality and savings to the ratepayers are the predominant motives and where effective public regulation is

possible, a system of private management would seem preferable. Especially is this true where public utility corporations realize their peculiar position as public servants and, as a result, are willing or can be compelled to give fair treatment, good service and reasonable rates. The policy of fair treatment, good service and reasonable rates will bring its reward in financial return to any privately owned public utility. On both sides there seems to be a growing realization of mutual responsibility.

25. *Issue must be settled by experience.*—Every one agrees that some form of government control of public utilities must be exercised. There can be no doubt that conditions have improved under the administration of public service commissions. The question of rigid public control of public utilities seems to be settled. Whether we shall eventually go further is something that will be settled by experience.

REVIEW

How and to what extent should a city try to prevent congestion caused by concentration of population?

Is it possible for a municipally managed plant to develop as has the Public Service Corporation of New Jersey?

Do you think the public will play fair with a company following a policy of good service, reasonable rates and non-interference in politics? Why?

Are there any reasons why municipal management should be more efficient than Federal? If so, what are they?

Do you think a policy, like that of Montreal, of lower priced trolley tickets at certain periods of the day, a good financial proposition? Give your reasons.

CHAPTER X

TRUSTS AND COMBINATIONS

1. *No clear-cut government policy recognized.*—Altho the necessity of regulation is recognized in the public service field of business, a very different question is presented when we consider the extension of governmental supervision to other parts of the industrial field. Two methods have presented themselves as government policies in the treatment of public service corporations—regulation or government ownership. In the remainder of the industrial field, a wider and less definite choice is presented. Here monopoly is not recognized as necessary or as even advisable. Competition is still thought by most people to be something to be preserved and guarded by the community. The Government has not entered into this part of the industrial field in so tangible and direct a manner as has been the case with public utilities. Substitutes can often be found for the products of most industries, so that the public is not so peculiarly dependent upon them as upon electric light, gas, water and railway service. Again, these other industries are not generally recognized as public servants.

Many arguments could be advanced for a policy of legalized combinations and trusts, even with monopoly

conditions present, under a system of regulation, including such matters as prices, securities and publicity of accounts; and such a policy has been advocated by many people. But the idea of government ownership in this modern field is not so far advanced as in the case of public utilities, where it has taken a strong hold. The public is still groping in its efforts to find a satisfactory method of dealing with other industries.

2. *Definition of trusts and combinations.*—Outstanding in this general industrial field are the great combinations. Instinctively the mind conjures up the whiskey, the malting, the print paper, the steel, the harvester, the sugar combination and a host of others. Their mere recital is evidence of the hazy definition given to the words "trust" or "combination." In general, we mean by such terms any large industrial combination, whether it be a capitalistic monopoly or an actual competitive corporation, whether it completely controls an industry, or is only the strongest company in any particular line, as is the United States Steel Corporation.

The word "trust" is applied by the public to big business. Trusts and combinations are here taken to mean manufacturing corporations with such great capital and power that they are at least thought by the public to have become a menace to their welfare, whether or not they have monopoly power.

3. *Why government interferes.*—There are several reasons why the American governments have seen fit to regulate or to prohibit trusts and combinations.

As Professor R. T. Ely of Wisconsin sums the matter up, the public's apprehensions are due to:

The fear of monopoly power
The fear of industrial concentration
The fear of wealth concentration.

All these fears are closely connected in the popular mind. There is a widespread feeling that accumulation of wealth in the hands of a few, together with the enormous ramifications of corporate organization, and the ease with which combinations are nowadays effected are being used to oppress individuals and to injure the public generally. It has been a favorite line of argument on the part of the United States government prosecutors, to hold to the assumption that any organization controlling a large percentage of the total output of the country in its field is a monopoly.

This argument was used in the Government cases against the International Harvester Company and the United States Steel Corporation. But it is by no means clear that monopoly can be determined by the percentage of the total output. The Steel Corporation has had competition during the whole of its history and its percentage of the total output has steadily declined. The International Harvester Company controlled some 85 per cent of the total output of the country in one or two lines of manufacture; but some of the Harvester Company's competitors, when put on the stand and asked if they felt the Harvester

Company's competition to be unfair competition, emphatically answered "No." When asked if its competition was real competition they said it certainly was, but that they were increasing their output in spite of it. These competitors did not believe that the Harvester Company could put up its prices materially as long as they maintained their own prices, and there was no agreement among the manufacturers as to prices. Monopoly cannot be determined in this way. Nevertheless there has been a widespread general fear of these trusts and combinations and the government has felt it necessary to take decided action against them. Before taking up in detail the policy of our own government some light may be found in the practices followed in Germany, England and Canada.

4. *Policies followed by Germany.*—In Germany no prohibitory legislation is placed on trusts or combinations. The Government itself is in some cases part and parcel of such organizations. Under this policy a remarkable development in trade combinations has taken place, the old combinations being continually extended and new ones constantly formed. The German "Kartell" is usually in the form of an agreement regarding output and sales with severe penalties for their violation. Agreements often cover practically an entire industry and are enforced by the courts. In this country, the courts would hold them illegal and would not enforce them. The German Government has believed that good economic results come from such organizations and except in specific cases of

wrong doing, contrary to the public welfare, has not attempted to prevent them. Indeed it directly encouraged them, especially, perhaps, when the product successfully entered the export field. This, of course, is a marked contrast to the American policy.

5. *Policy followed by England.*—England also follows a liberal policy, making her distinction on the basis of reasonable and unreasonable combination. In the earlier days, under the Houses of Tudor and Stuart, there were many monopolies granted by the kings, such as the monopoly of being the only seller of certain lines of products. Later under the Monopoly Act complete monopoly or general restraint of trade was forbidden, but under the English law from the earliest days even to the present time, there have been certain forms of legal monopoly. On the restraint of trade the line of decision is most clearly marked. The English courts have held that a partial restraint of trade is not illegal unless contrary to the public interest. In other words, combinations which do not use methods that are unreasonable or harmful are not declared invalid under English law. Business in English industry is not hampered by a narrow governmental policy; it operates under specific laws against wrong doing, and reasonable methods and intention are provided for.

6. *Canadian policy.*—Canada, with economic conditions similar to our own, began its policy toward trusts and combinations in a similar manner, namely prohibition. The Dominion Criminal Code contains

provisions against combinations and monopoly. Lately, however, this purely negative policy has been greatly modified, altho not entirely superseded, by the passage of the Combines Investigation Act of 1910. Under this law provision is made for a board of investigation composed of three persons, one representing the complaining party, one the defendant and the other a judge of the Court of Record. The board may be secured by any six persons who declare that a combination exists in respect of any article of trade or commerce, and that prices are thereby enhanced or competition restricted to their detriment, either as consumers or producers and who can present reasonable ground for such declaration.

7. *Methods of regulation under the Canadian Act.* —Several methods of regulation are provided in case the charges are proved. The tariff may be reduced or taken off altogether on certain articles controlled by the combination, so as to bring about foreign competition. Patents used unfairly may be revoked. If the combination or person continues in a course against which the board has declared or does not carry out the recommendations made, such person or organization is guilty of an indictable offence and subject to a fine not exceeding one thousand dollars a day and costs. Where licenses under the Canadian Inland Revenue Act are used unfairly, their cancelation is possible and probable. Subsidies granted by Parliament to shipping or transportation companies may be revoked.

8. *Considerations in the Canadian policy.*—Accord-

ing to W. L. Mackenzie-King, former Minister of Labor of Canada,[1] the Dominion shapes its policy in the light of three possible considerations:

First. That it is the possible inimical effects of combination and not combination as such that is to be aimed at in legislation. This is frankly an admission that combination of itself is not necessarily a bad thing, but that it is an inevitable and necessary development.

Second. Canada believes that it is the duty of the government to see that the interests of the many who compose a state are not sacrificed to the interests of the few whom favors and opportunities have helped to create.

Third. That there are certain evils in combinations in which publicity is more effective than penalty, and that no single remedy may be formed for all the possible abuses that may arise.

9. *Beginnings of American anti-trust movement.*— In the United States from the end of the Civil War down till the late 80's, popular faith in competition unhampered by government regulation was the rule. In the 80's, many large organizations were formed. Many used reprehensible methods to stifle competition and took a trust form of organization which, as it seemed to permit combination of almost unlimited size and power, aroused great apprehension on the part of the public. Legislatures became agitated, so

[1] The Canadian Combines Investigation Act, Annals American Academy, July, 1912, Page 149.

that by 1890, 25 or 30 of our states had passed laws forbidding monopoly or combination in restraint of trade. Ordinarily, the law forbade all kinds of combinations in an attempt to keep business in the old competitive form. Had the earlier laws been strictly interpreted, it would not have been possible to do any business at all except as private individuals.

The effect of these laws, however, was not great. They were recognized as having been passed in response to popular outcry. In cases where the legislatures believed in them, business men did not. In consequence, business was generally carried on as before and combinations were seldom attacked. On the other hand, in some of the states, notably in Missouri and Texas, an effort was made to enforce these laws rigidly. Suits were instituted and the acts were upheld by the courts. The consequence was that when it became apparent that it would be dangerous to do business on a large scale, there was either an evasion of the law or else the companies withdrew from the state. The International Harvester Company, for instance, announced that it would not violate the law and that if it were going to be attacked as a law breaker it would withdraw; and it did withdraw from Texas. Texas has recently passed a bill inviting back to the state the corporations convicted under the anti-trust laws.

10. *Sherman Anti-Trust Act.*—The Sherman Anti-Trust Act was drawn in much the same spirit as some of these state laws. Indeed, Senator Sherman

said that its purpose was to enable the Federal courts to "cooperate with the state courts in checking and controlling the most dangerous combinations that now threaten the business property and trade of the people of the United States." Altho the law was passed in 1890, until 1903 it was a negligible factor, apathetically enforced. At that time, however, perhaps as a result of a number of investigations alleging political corruption and unfair practices by combinations, public attention was focused upon the combinations, and a general wave of prosecutions followed under the Interstate Commerce Commission Act and the Sherman Anti-Trust Law.

11. *"Monopoly" in the Sherman Act.*—Under the Sherman law, "Every contract or combination in the form of a trust or otherwise, or conspiracy in restraint of trade or commerce among the several states or with foreign nations" is illegal, and "every person who shall monopolize any part of the trade or commerce among the several states or with foreign nations shall be deemed guilty of a misdemeanor." If an organization increased its business five or ten times simply thru using the most efficient means of production, it might very easily be called a monopoly, altho the organization may have had no thought of doing anything out of the way.

12. *Reasonable and unreasonable restraint of trade.*—In the first important cases the lawyers argued that altho the word "reasonable" was not in the act, our law was a development of the common law and it

would be the natural thing to suppose that this Act applied only to contracts in unreasonable restraint of trade and contrary to the public interest. The first important decisions that followed (especially those in the Trans-Missouri Freight Association, in the Joint Traffic Association, and in the Addyston Pipe and Steel Co. cases) rather disabused business men of this feeling. The courts held that it was not the duty of the court to read words into a law, that Congress had said that every contract along this line, even among railroads, was illegal, and that they would not attempt to take up the question whether or not a contract was reasonable.

13. *Standard Oil and Tobacco decisions.*—Then, in 1911 came the decisions of the Standard Oil and the Tobacco cases when a step was taken by the court that covered the chief point that had been advocated during the preceding ten or fifteen years by the people who were trying to get the Sherman Act amended. The court in these decisions said in effect that there must be adjustment of the meaning of the law to business conditions and that if Congress did not make that adjustment, it was a matter for serious consideration by the Court; and that it would construe the law in the light of reason. These two decisions marked real turning points in the American policy toward trusts and combinations. Reasonableness was to be followed in deciding upon the actions of those forming trusts and combinations.

14. *United States Steel Corporation decision of*

1915.—Court decisions of the last few years indicate a still more liberal and constructive point of view toward honorably conducted corporations and combinations. From the viewpoint of the business man, the decision of the United States District Court for New Jersey, in the case of the United States Government against the United States Steel Corporation, handed down June 3, 1915, was one of the most momentous for many years. If it is upheld by the United States Supreme Court it will mark an epoch in our business history. For many years it has been well understood by those who have followed its methods of business, that the United States Steel Corporation has been attempting to manufacture good goods at the lowest cost, and to deal fairly with its competitors, with the consumers of its products and with its employes—altho, of course, there has been a decided difference of opinion between the officers of the corporation and of the labor unions as to the best methods to follow. The Court not only recognized these facts, but, what is of vital importance, it has officially declared that when business is carried on with these purposes and by these methods, a corporation is not acting contrary to the Sherman law, however great its size. After the entrance of the United States into the war and the vital need for this corporation and many others to develop their productions to the highest possible degree, the attorney-general decided that it was not good policy to hamper the companies by pressing these suits before the close of the war. In conse-

quence the Supreme Court has not yet rendered its final decision.

15. *International Harvester Company decision of 1914.*—It is an interesting fact and also a striking commentary upon the legal system of the United States that the District Court of Minnesota on August 12, 1914, altho recognizing that the International Harvester Company had been carrying on its business in accordance with the same methods and with substantially the same results as those just mentioned, nevertheless decided that that company was a "trust" existing in violation of the Sherman Law. To be sure, the percentage of the entire output of the country in certain lines produced by the Harvester Company is probably larger than in the case of the Steel Corporation and, at the time of its organization, some of its constituent members were competing in certain products. Nevertheless the methods of its capitalization left less to be criticized than that of the Steel Corporation. The purposes of doing business and the methods have apparently been largely the same. In this case an agreement has been reached between the United States Department of Justice and the company by which the corporation has been reorganized to meet the contention of the Government. In consequence the suit has been dropped without a decision.

16. *Sound business principles recognized.*—Judge Elbert H. Gary, more than fifteen years ago, before the organization of the United States Steel Corporation, in his testimony on October 19, 1899, before

the United States Industrial Commission, outlined the general line of business policy that he thought great corporations should follow in order that the best interests of the public as well as of the companies should be served. He said that in his judgment there was no possible way by which any company could keep down competition, even if it so desired. Speaking of the Federal Steel Company, of which he was then President, he stated specifically: "We have endeavored not to run counter and not to be antagonistic to the spirit of any law of any state; we are not attempting to control prices; we are not seeking a monopoly." And again, recognizing certain abuses that were found in some cases and the possible remedies for such evils, he said: "These great aggregations of capital undoubtedly are for the benefit of us all, certainly for the benefit of this country, and certainly for the benefit of the employes generally. But the aggregation of capital may be used in such a way as to do a great deal of harm. . . . I think the best remedy is plenty of light on the subject, plenty of discussion, a thoro understanding." On May 28, 1913, testifying in a later suit, Judge Gary expressed like opinions, asserting that the policy of the United States Steel Corporation has been consistent from the beginning.

17. *Affirmative decision by United States Supreme Court recognizes honest business methods.*—Altho there may have been here and there exceptions, the two great corporations mentioned, judging from the

facts that have been brought out by the scores of witnesses, have conducted their affairs in accordance with the principles of enlightened business. Since the decisions in the Standard Oil and Tobacco Companies, the decisions of the Supreme Court have indicated that it believes in good business methods and will interpret the Sherman Law as being not antagonistic to corporations that follow sound business practice; but in the individual cases before it, the decisions have generally been adverse to the corporations—the Court holding that their business practices have been unsound and in many cases oppressive. There has been needed an affirmative decision that should state positively that any corporation following sound, honest business principles consistently, no matter what its size, would not fall under the ban of the Sherman Law.

18. *The real question involved.*—The decision of the District Court in the Steel case takes definitely and positively that position. The judges, referring to the Standard Oil and Tobacco cases, say: "These cases may be taken to have established that only such combinations are within the Act as by reason of intent or the inherent nature of the contemplated acts prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade." Again, "It will be seen that the steel and iron business of this country is not being and, indeed, cannot be monopolized, that the real test of monopoly is not the size of that which is acquired, but the trade

power of that which is not acquired." And further, "We dismiss once and for all the question of the mere volume or bigness of business. The question before us is not how much business was done, or how large the company that did it, the vital question is: 'How was the business, whether big or little, done? Was it, in the test of the Supreme Court, done without prejudicing the public interests by unduly restricting or unduly obstructing trade?' The question is one of undue restriction or obstruction, and not one of undue volume of trade."

19. *Public interest as shown by facts.*—These statements put the case squarely on the issues, not of verbal quibbles, or of legal technicalities, but of the public interest as shown by the actual facts. That position is the one that every business man wishes the Court to take. If the Supreme Court upholds this decision, it will do more to relieve business anxiety and put the country on the road to permanent prosperity than any possible legislation. Business men have hesitated to invest capital, because they could not judge how the Court would interpret the law. They had often followed strictly their consciences, knowing the facts, knowing that they were harming no one, and yet at times fearing that they might be breaking the law.

20. *Attempts to clarify the Sherman Anti-Trust Law.*—In order to vitalize and clarify the Sherman Law so as to meet the wide dissatisfaction on the part of the general public, who have felt that the dissolu-

tion of great trusts has not accomplished anything of practical value, and on the part of the business interests, who have felt that the uncertainties of meaning of the Sherman Law have subjected business to continual harassment with no compensating gain to the general public, Congress during the Wilson administration passed the Federal Trade Commission Act and the Clayton Anti-Trust Law. In these acts Congress has attempted to provide an administrative body to deal with these questions on their economic merits and to define acts so as to make the provisions of our anti-trust law specific and definite.

21. *Powers of the Federal Trade Commission.*—The Federal Trade Commission Act provides for a commission of five members, not more than three of whom shall be members of the same political party. The Commission has the following powers:

(1) To effect the readjustment of business and to prescribe appropriate decrees in equity suits.

(2) To require reports and classify corporations.

(3) To investigate.

(4) To prevent unfair competition.

In addition, by the terms of the Clayton Act, the Commission possesses:

(5) Power to prevent price discrimination, exclusive and "tieing" arrangements, holding corporations and interlocking directorates.

22. *Readjustment of business and prescribing of appropriate decree in equity suits.*—The Federal Trade Commission may upon the application of the

Attorney General "investigate and make recommendations for the readjustment of the business of any corporation alleged to be violating the anti-trust acts, in order that the corporation may thereafter maintain its organization, management and conduct of business in accordance with law." In a suit in equity the Court may refer said suit to the Commission, as a master in chancery, "to ascertain and report an appropriate form of decree therein," altho it is not bound by the report. Altho it is discretionary upon the part of the Attorney General and the courts to use the Commission, it is presumable that this will be done and that the decisions of the Commission will have much directing force. Much, of course, depends upon the composition of the Commission.

23. *Power of investigation.*—Aside from the power of investigation which is conferred upon the Commission as incidental to the functions just discussed, that body is given several other inquisitorial powers. It has the power to investigate the organization of any corporation engaged in commerce, excepting banks and common carriers. It may also "upon the directions of the President or either House of Congress, investigate and report the facts relating to any alleged violation of the anti-trust acts by any corporation." Also, it may, upon its own initiative, make investigation of the manner in which any final court decree entered against any corporation has been or is being carried out; and may "investigate, from time to time, trade conditions in the foreign countries, where

associations, combinations, or practices of manufacturers, merchants or traders, or other conditions, may effect the foreign trade of the United States." It may also have access to the documentary evidence of any corporation being investigated and has power to require by subpoena the attendance and testimony of witnesses.

24. *Power to require reports and classify corporations.*—The Commission may "require corporations engaged in commerce, excepting banks and common carriers, to file with the Commission, in such forms as the Commission may prescribe, annual or special reports, or answers in writing to specific questions." It may also classify corporations and prescribe a uniform system of accounting. This may be of far-reaching importance in determining the relative efficiency of various kinds of organizations.

25. *Power to prevent unfair competition.*—The Trade Commission Act provides "that unfair methods of competition in commerce are hereby declared unlawful," while under the terms of the Clayton Act, jurisdiction to prevent various specific acts has been vested in the Commission. These specific acts cover discrimination in prices among purchasers, the prohibition of "tieing" and exclusive selling arrangements, the buying by one corporation of the stock of other corporations where such acts may substantially lessen competition or tend to create a monopoly. The Clayton Act also provides "that no person shall be a director at the same time in any two or more

corporations engaged in interstate commerce which have a capital, surplus and individual profits aggregating more than 1,000,000 dollars." This provision applies in cases where such corporations have been competitors, so that the elimination of competition between them would be a violation of any of the provisions of the anti-trust laws.

26. *Advantages and disadvantages of these new laws.*—One may question whether any very material alteration from the situation under the Sherman Act has been secured by the new legislation so far as it prohibits unfair competition, price discriminations, exclusive arrangements and holding corporations. The value of prohibiting interlocking directorates as enacted in the Clayton Law is very much to be questioned. "Tieing" arrangements were specifically upheld by the decision of the United States Supreme Court in Henry vs. Dick. The Sherman Act, therefore, could scarcely have been made applicable to any such arrangement in view of that decision. The Clayton Law, therefore, here prohibits an act previously declared lawful by the United States Supreme Court. The value of this prohibition in the Clayton Law may also be greatly questioned. The new laws provide for a body of men with wide investigatory powers who are to devote a considerable amount of time to the study of the question. These five men ought, therefore, to become specialists. The report of the Commission on combinations in foreign trade indicates that the Trade Commission will be a clarify-

ing factor in presenting the economic side of the corporation question to Congress and the public.

It seems not improbable that the new laws mark a turning point in our attitude toward great corporations; that criminal penalties are no longer to be relied upon for enforcement, but that enforcement shall be handled civilly, thru either the courts or the trade commission. This points toward the ultimate result that the main control of great corporations will be vested in an administrative board or body.

27. *Increasing power of Federal government.*—The formation of the Federal Trade Commission, the enactment of the Clayton Anti-Trust Act, and the more recent passage of the Child Labor Bill aimed at the production end of business by preventing manufacturers who do not come up to certain standards in the employment of labor from engaging in interstate commerce, all point toward an increasing power of the central government even in time of peace. The Federal government exercises its power over business thru the provisions in the constitution, giving it the right to regulate commerce among the states and with foreign nations, the power of taxation and the power over the postal service.

28. *Distinction between commerce and manufacturing.*—As trusts or combinations are generally manufacturing concerns, they are, so far as production is concerned, subject to state regulations, not Federal. As organizations engaging in interstate commerce they are subject to Federal supervision, not

state. This distinction makes efficient control difficult and chaotic, leaving the business man between Federal supervision of interstate commerce and the intricacies of legislation enacted in states. The new Child Labor Act is an attempt to make the commerce clause in the constitution cover one factor in the manufacturing end of the business.

29. *Federal incorporation or license for interstate commerce.*—In consequence of this confusion, many business men favor a voluntary Federal incorporation act or a Federal license for interstate commerce. A Committee of the National Civic Federation, made up of lawyers, great business men and labor leaders, a few years ago drafted a Federal license bill which if followed would go a long way toward meeting these difficulties. The bill included the licensing by a Federal commission of corporations doing interstate commerce under provisions which would give well-intentioned organizations the opportunity to square themselves with the law. Unless the preceding decisions of the Supreme Court and the work of the Federal Trade Commission prove favorable to the country, the passage of a Federal licensing act and an extension of the control of the Federal government over business in general thru an administrative body such as the Federal Trade Commission seems probable.

30. *Present situation.*—History is made quickly in times of war and there is evidence that much of the old prejudice against combinations has broken down.

The needs of war emphasize the importance of increased and coordinated production. That this can be obtained more easily thru large concerns under a unified direction, than thru countless smaller ones working at cross purposes is almost self evident. Under such conditions during the war the people and the government were more indulgent towards combinations.

The United States government has dropped, for the present, pending suits against a number of the largest combinations because any decision requiring the dissolution of these combinations would involve new financing on such a large scale as to compete with the government for funds. The passage of the Webb Bill which provides for combination in export trade and the future necessity of low cost of production to compete in foreign markets make it probable that a radical change in our policy toward combinations will take place before these cases are again brought to the attention of the courts. In Chapters XIII and XIV the work of the Government in stimulating and directing industry in time of war shows that centralization is often needed to secure the highest efficiency. This experience may well have a noteworthy effect upon public opinion.

REVIEW

Why would regulation of a manufacturing concern be more difficult than that of a public service corporation?

What four policies may be followed by the government in dealing with business?

Why is monopoly recognized in public service corporations and not in corporations in general business?

Why is it necessary under modern economic conditions for the Federal government to assume more power over corporations?

Can monopoly be determined by percentage of output?

CHAPTER XI

THE POSTAL SERVICE

1. *Importance of the postal service.*—President Wilson at the annual banquet of the National Association of Presidential Postmasters, July, 1916, declared that in every country the post office is the "conspicuous gauge and standard of what the government is doing for the people."

From the viewpoint of government management the post office is of primary interest, as it is the best and largest example of government monopoly in this and in most other countries. The distribution of information and goods is of the utmost importance, as upon its efficiency and progressiveness depends in large part our modern, complex, rapid business life. From the very nature of the postal business, good economic and financial results should be secured. If the government does not or cannot operate the post office efficiently, there is little likelihood of its succeeding in the management of more complicated and less routine-like lines of industrial activity. Much of the government expansion of business management is thru the enlargement of the postal department. The parcel post is a recent example of such expansion. In many other countries the telegraphs and telephones are also run by the post office. The Post-

master-General of the United States even before the war proposed to take over the telegraphs and the long distance telephones. The action of the President in taking control of them as a war measure and placing them for administration under the direction of the Postmaster-General and the further act of assuming control of the cables even after the signing of the armistice, Nov. 11, 1918, have placed the issue squarely before the country. The results were not encouraging and the Department has been subjected to much criticism. The post office for many reasons, then, is worthy of careful study as a guide in settling the question as to whether further expansion in government management is a wise policy.

2. *Development of postal service.*—The development of the postal service is an interesting story. The first recorded postal service consisted of a regular system of sending messengers on the king's business in the days of Cyrus the Elder, King of Persia. Among the ancient Romans it was common to have postal routes as it was later in France under Charlemagne. So far as is known the first commercial post, aside from government messages, was established early in the twelfth century. In 1516 there was established a postal system for the Emperor of Germany and the position of postmaster-general was created. A regular post was established by Henry the Eighth in England—at first for the government but later for the people. Under James I. in 1603, when there was a beginning of a monopoly system, James

gave to a private interest a monopoly of hiring out horses to travelers. Soon after a special privilege was given in conjunction with this monopoly for collecting and delivering letters.

A regular post was established between London and Edinburgh in 1535, and finally the business became so profitable that in 1650 there was a special offer made of five thousand pounds a year for the privilege of a postal monopoly. A penny delivery rate was established in London as early as 1680. This was at first a private affair, but afterward was incorporated into the public system. Not until 1840, however, under Rowland Hill, was the principle of penny postage for all England established. To have one uniform charge for all distances was a great advance, and this plan of universal penny postage was not introduced into England until after long discussion. It was an innovation which it was thought would be extremely expensive. Hill claimed, however, that it would pay and it proved to be a great success.

The first regular post in the American colonies was established in 1682 and this was taken over in 1710 by Great Britain. The Continental Congress set up a post office system, Benjamin Franklin becoming the first Postmaster-General. Postmasters at that time had the exclusive privilege of sending their own newspapers thru the mail. In 1792, however, it became a law that any newspapers, no matter by whom published, could be sent.

The postage stamp was introduced in England in

1840 and in the United States in 1847. In 1876 an international postal union was established among the different nations so that regular mails could be exchanged.

3. *Activities of post office constantly expanding.*—To the post office department a number of other activities besides the transmission of mail have been attached and there is no telling what further functions may be given to it. Registering letters was a great innovation when first put into effect.

The money order system is relatively a late development. It was first established in England as a private matter thru the enterprise of three English postal clerks. They developed the system of making payments thru the mails and later it was made a part of the regular postal work. Postal savings was established in Great Britain in 1861 but not until lately in this country. In 1865, too, Great Britain started in connection with the postal savings a system of annuities and life insurance. The carrying of parcels by the post office also began in Europe much earlier than in this country.

4. *Particular reasons for government management of the post office.*—There are many special reasons why the post office in particular should be managed by the State. The idea of a government monopoly appeared early, and from the very beginning as a result, the post office had a close connection with the government. The need for secrecy also, from the first, was very important and the State, in those

days, was the only agency which could undertake and guarantee this. We do not ordinarily think much about it, but the European war has shown us how often it becomes extremely embarrassing when the privilege of secrecy is withdrawn. The loss and delay consequent upon the interference with mails was clearly brought out during the great war by the action of Great Britain in stopping and examining mails between the United States and neutral countries. It was even claimed that this practice gave much information to British manufacturers regarding American business connections.

In business dealings, individuals in the United States will trust to the mails, information which they would not trust to the telegraph or telephone. While the employes of the telegraph and telephone companies are sworn to secrecy, at times they cannot be trusted and often are careless or indifferent. Moreover, the lines are easily tapped.

5. *A field for government and revenue.*—The post office was early seen to be a possible source of profit, and the State undertook it for that reason. At the present time, however, only a few countries are actually running their postal system at an apparent profit, altho even in these countries a profit is doubtful if proper accounting covering all items of expense were in vogue. In the United States, the deficits for a number of years have been very large so that the total loss from 1837 to 1912 was well over three hundred million dollars, and this amount would be very much

larger if proper charges were included in the expenditures.

6. *Social aspects prominent in the post office.*— The educational and social aspects of the public management of the postal service are also very great. The cheap delivery of letters, newspapers, magazines, and books is extremely important. The extension of service into country districts, where no private company can afford to extend it, is worth while from the social and educational viewpoint. This service can be most easily secured by government monopoly. The postal savings bank in accepting money from those who will not trust the ordinary banks, and who in many places have not the right kind of banking facilities, is also a great social gain.

The post office, then, has many historic reasons showing why it is peculiarly a business to be managed by the government. In other ways also, it is marked off from common industrial enterprises in such ways as to indicate that it is a fit field for public management to enter.

7. *Should be run efficiently and economically.*— The post office is uniquely a business which the government should be able to run efficiently and economically. The risks of ordinary trade are absent. In the post office, costs remain fairly constant, large quantities of materials do not have to be stored with consequent changes in prices or depreciation in quality. Very little of the speculative element is present, unforeseen losses are reduced to a minimum. A

system of transportation is at hand in the railroads so that no expensive development of plant is necessary. Capital charges are low compared with other big business. Postal charges are simple. The business is one of orderly routine, reducible to a system, and needs, relatively speaking, only a small number of high salaried executives and technical men. Above all, it is constantly under the eye of the public, which is able to check up and to object if things go wrong. Very few kinds of business in brief are so admirably adapted to the difficulties of government management. If, then, the government is not able to run this business efficiently or economically, there would seem to be little hope of its succeeding in a more complex, more difficult enterprise. A brief examination should result in a clear-cut decision as to whether the post office should further extend its activities.

8. *Financially a failure.*—The United States Post Office from 1837 to 1912 had a total deficit amounting to the tidy sum of $330,000,000. Even at this, the loss is probably underestimated, as accurate accounting methods which included proper expenditures would without doubt, considerably raise the amount. Was this amount deliberately devoted to the public service?

In the political jealousies between different administrations, slipshod methods are often interestingly brought out. In a statement issued May 30, 1913, Postmaster-General Burleson in trying to overthrow the contentions of former Postmaster Hitch-

cock that a surplus had been obtained during the latter's administration, said:

> Notwithstanding the great zeal displayed in the effort to place the department on the so-called paying basis, and the resulting injuries to the service, the claim of the former Postmaster-General, that the service actually yielded a profit in 1911, has no foundation in fact.
>
> Instead of a surplus of $219,118.12 for that year (1911), as claimed by my predecessor, it is clearly demonstrated that there was in reality a deficit of more than three-quarters of a million dollars. Furthermore, a close analysis of the financial statement of the year 1912 discloses the fact that the admitted deficit of $1,758,523.10 for that year was understated by nearly $100,000.

9. *Proper accounting methods lacking.*—An interesting experience of a private nature confirms the statement regarding possible inaccuracies. Some time ago in directing a brief study of the parcel post for the Alexander Hamilton Institute, some inquiries were made as to the cost accounting system employed in the Post Office Department under Mr. Burleson's administration. One of the auditors in the Post Office Department was asked what system they had for cost accounting. The auditor replied, "Why, man, what are you thinking of? There is no such thing in the Post Office Department." Further inquiry verified the statement. From the standpoint of a business man or an express company this would look like very loose management, but as a matter of fact the auditor could not give any definite statement of the

cost accounting system. The fault is clearly not confined to either party or either administration. It is a question of government management.

10. *Other factors causing inefficiency.*—Many other reasons can be given why the post office makes a sorry showing along efficiency lines. An editorial from the *Saturday Evening Post* of November 9, 1912, sums up many of the difficulties.

> In spite of civil-service reform, the spoils system is pretty largely in control of the Federal government, and virtually in complete control of many state governments. Naturally heads of departments, who are the President's political advisers, change with a new administration; but many subordinates in the most responsible positions, who ought to stand or fall solely by the value of their work, are turned out for political reasons. Civil-service rules protect the clerk in his humble job, but not in his ambition to reach the more responsible position; that is still the spoil of politics. Marshals, revenue officers and postmasters by the thousand are appointed because of their politics, or fail of reappointment on the same ground. The public is taught to regard government office as a "plum" to be won by political service.
>
> As long as thousands of purely administrative offices, including most of the more responsible ones, are plums of political government in nation and state, administration will cost hundreds of millions more than it should. When an ambitious village postmaster has the same chance to become a city postmaster that an ambitious village station agent has to become a city station agent we shall have economic and efficient government—but not before. Fortunately the present government seems now inclined to extend the system.

11. *Extravagance and special favors.*—Postmaster-

General Burleson in his 1915 report, in speaking of the reorganization of the rural service, says:

To provide for such a vast service necessarily calls for a huge expenditure of money, and this very fact makes it imperative that the administration of the rural service should rigorously exclude everything in the way of privilege, extravagance, or special favor. The controlling considerations must be efficiency and equality of service. Unfortunately these have not been the controlling factors in building up the rural delivery in the past.

A thoro investigation reveals numerous examples of special favor and privilege which as a whole constitute gross extravagance. In former years new routes were established with little regard for service already in operation. Long retraces were numerous which served only one or two families, and were maintained apparently for the sole purpose of continuing the routes at the standard length. In other cases it was found that short routes had been created over which service was provided twice a day, affording patrons of such routes facilities denied to the great majority. Nearly all such service constituted special privilege, and is indefensible and wrong.

Other examples are also given from the same report. In speaking of the erection of new buildings, the report says:

Many buildings are erected in cities where the cost of janitor service alone greatly exceeds the amount necessary to secure satisfactory quarters, including light and heat, under rental agreement, which is not believed to be a wise business policy. Money for public buildings should be expended very largely in the same manner as tho the Postal Service were being conducted by private enterprises. It is therefore highly essential that the public buildings erected for post-

office purposes be standardized, and that their costs be commensurate with the needs of the service.

The growth of the parcel post has led to an increased demand from the business interests for the establishment of post-office stations in various sections of the large cities, which lessens the necessity for the erection of very large public buildings. However, there are a number of large cities in which the buildings used for postal purposes are wholly inadequate, and it is believed that the funds used for the erection of public buildings should be expended in these cities for the construction, not of ornamental buildings but buildings designed to accommodate the Postal Service and furnish adequate facilities for handling the mails, before any action is taken looking to the erection of buildings in towns where they are not needed and can not be justified.

The annual "pork barrel" measures including large sums for post offices in small towns where the postal income is very small are well known to all. A recent postmaster-general himself said that if he could keep down "useless extravagances not postal but political" the country might have one cent postage.

12. *Reasons for the parcel post.*—Three motives actuated the establishment of the parcel post: (1) the experience of other countries, (2) the possibility of lowering rates, and (3) the universal resentment at the attitude of the express companies. The express companies by their attitude toward the public at times perhaps deserved to be troubled. The entrance of the government into the express business is a good example of government competition with private companies in such a way as to cause a noteworthy improvement in the latter's methods and points of view.

Before the Government took control as a war measure, express companies in order to meet the parcel post competition gave better service and lower rates, partly under order of the Interstate Commerce Commission. From this angle, the entrance of the government into the parcel post business was serviceable.

13. *Parcel post introduces a new principle.*—The direct carrying on of a business in competition with private companies thru a general parcel post, however, seems to introduce a new principle in our government work. If so, it should be justified on the ground that it does actually effect a saving of industrial energy to the people; and that is a question that seems by no means to have been settled. An investigation made some time ago by the Research Department of the Alexander Hamilton Institute with the aid of some hundreds of shippers as to the relative efficiency of handling packages by freight, by express and by the parcel post, covering an average business of 118,000 parcels per day, indicated that, altho, in the opinion of these shippers the parcel post had the advantage of the express companies in cheapness, in all other particulars—speed, convenience in pick-up and delivery, care in transit, collections, cost of insurance, tracing of lost packages and adjustments of claims—a large majority of the shippers preferred the express companies. In the matter of cost, the charges by freight were cheaper than by parcel post, but of course the character of the packages differed. Even as regards cheapness, however, some

shippers said the post was unsatisfactory, since it took longer to prepare a parcel for mailing than for express, the packing cost more, the package was more liable to breakage, and if lost, the Post Office Department "fills out a paper and makes an attempt to locate it but never finds the goods."

14. *Post office has never determined costs.*—Again the question of cost to the public in distinction from cost to the shipper seems as yet entirely unsettled, for, so far as one can learn, the Post Office Department has no system of cost accounting in connection with the parcel post. In consequence no one can determine whether it is really carrying at lower cost than do the express companies, or whether, as seems not improbable, the difference in charge to shippers is made up by the low rates forced on the railroads against their will, or by shifting the burden on other branches of the postal service, or upon the taxpayers. The railroads claim that they have been most unjustly treated and many senators and members of Congress agree that the burden has been placed upon them. Certainly the Post Office Department has no right to claim success in this regard until it can show cost accounts that are clearly comparable with those of the express companies.

15. *Government urged to take our telegraphs and telephones.*—As already stated, even before the war Postmaster-General Burleson in his annual reports made the recommendation that the telegraph and long distance telephone systems of the United States should

be incorporated into the postal establishment, and claimed that the welfare and happiness of the nation depended upon "the fullest utilization of these agencies by the people, which could only be accomplished thru government ownership." In speaking of the recommendation of the War Department for the transfer of the Alaskan cables and telegraphs, Mr. Burleson also asked that the Porto Rican and Hawaiian systems be turned over to him on the ground that "the services are so detached geographically as to preclude complicated relationships with neighboring systems, and are sufficient in extent to afford valuable experimental demonstrations for the postal service looking eventually to the administration of a complete national service." If the business and social welfare of the people of the United States are to depend largely upon a government-owned telegraph and telephone, it is perhaps well that we have had, as a war measure, a brief test of the post office efficiency in this field. But it may be well also to consider how the population of European countries have fared under their government-managed systems. From the standpoint of the development of this industry, the United States and most of Canada with their private plants have had seemingly a much greater success than European governments have had with their publicly-managed plants. For example, the United States has 9.1 telephone stations to each one hundred of population, and Canada 5.6, altho its population is widely scattered, while the densely populated countries of Europe have

only .8 stations to one hundred population. In Germany where public management was before the war generally considered efficient, only 1.9 stations per 100 of population are to be found, 1.6 in England and 3.4 in London.

In the thirty-three cities of Europe with a population of over five hundred thousand, only 3.2 stations to one hundred population were used, while in the eleven cities of the same class in the United States, 10.4 were utilized. The investment in the United States in telephone companies (1917) is $1,064,800,000 while the investment in Europe is $635,925,000. It is also worth while noting that whereas the investment per station in Europe is $172, the investment per station in the United States is only $125. Taking into consideration the quality of service rendered it would seem as if the private companies in the United States have made much better use of their capital. Even Congressman Lewis of Maryland, an ardent advocate of government ownership, admits that the Bell system is an organization whose securities are free from water or inflation. Looked at from any angle, the development of the private companies of the United States and Canada are much better than any of the government plants of Europe and even of Australia and New Zealand.

16. *Unprogressiveness of government plants.*— Mr. Sydney Brooks, speaking of the government-managed telephone systems remarks:

> But alertness and enterprise such as this cannot reason-

ably be expected from a government department. The characteristics of the bureaucratic mind and temperament forbid it. The organization of a government office, with a virtually irremovable staff, forbids it. The spirit of officialdom, with its traditions of subordination, its narrow professional outlook, its unwillingness to concentrate responsibility, its insensible stifling of initiative forbids it. When humanity has reached the place on which the ideal of service is a stronger impulse to sound administration than the hope of gain, and when politicians are inspired solely by an informed desire for the public good, things may be different. The marked and pervasive unprogressiveness of the great majority of the state telephone systems in Europe is not an accident. . . . I believe I am right in saying that not one of the innumerable discoveries that have transformed the technical and commercial management and development of the telephone in the last thirty years has emanated from a Department of State, that European governments have been the last to adopt them, and that the verdict which experts are obliged to pass upon them, with perhaps one or two exceptions, is that they have not learned their business. Practically all the governments of Europe in their conduct of the telephone industry have made the vital and fundamental error of seeking efficiency thru economy, instead of economy thru efficiency. . . . For practically a decade the post office and the National Telephone Company have been working side by side in the development of the London telephone service. The published accounts show that tho the post office pays neither rent nor rates nor taxes, its working expenses have been seventy-three per cent of its gross receipts, whereas those of the private corporation have been only fifty-six per cent of its gross profits. In view of these facts, Mr. Burleson's statement that only thru government ownership could the people secure the fullest utilization of their great industry seems to be an extremely doubtful proposition.

17. *What guiding principles should be followed?*—The question arises, can we find a guiding principle

to determine where the post office shall stop its work. Shall it primarily do work for the government? Shall it protect the savings of the poor? Shall it promote private business and if so, shall this be done at the expense of the taxpayers or solely at the expense of the shippers? All these questions must be answered before we shall know where to draw the line. Is the post office to take over these additional activities, if so, why? For better service, for cheaper service, for the effect upon the people in the way of protection? We must seek a guiding principle and we must be sure of our facts.

18. *Government should act on basis of accurate knowledge.*—That the tendency is at present strong toward increasing the field of government management thru the post office department is clear. It is by no means clear, however, how far it is wise to go in that direction. We are in the dark as to the clean-cut principles on which decisions should be reached, and as to data on the actual effects of existing conditions so gathered that the experience of different systems are clearly comparable. Until the government institutes a better system of cost accounting so that we can know who it is that pays the rate on parcels, there ought to be no further extension of the parcel post. While our privately managed telephone and telegraph companies show such initiative, progressive development and public spirit in meeting the nation's needs, one need expect no advantage in the post office management of these industries. Our postal savings

banks seem to meet a genuine need, but surely the post office ought not to assume any responsibility in these matters without very careful consideration of the principles on which it is acting.

19. *Special war services.*—Like other departments of the government, and like private industry, the Post Office Department has been drawn into the web of war activity in many fields. Thru its function of regulating access to the mails it has become an organ for combating the spread of seditious utterances. It has come to the aid of the Treasury thru the part that it is playing in the sale and administration of War Savings Stamps. Since the institution of the Postal Savings System, the post office has come into more intimate relations with the people, especially those of foreign origin, and their good-will towards the post office has been a factor of importance in the success which has attended the War Savings plan. The department came to the aid of the army and navy thru the arrangements which it made for the distribution of reading matter to the military forces.

REVIEW

Under what conditions should the public be obliged to pay thru taxation for the losses incurred in sending postal matter at less than cost rates?

Why is it impossible to place dependence upon the figures of the Post Office department surpluses or deficits?

Is it a wise move, when we are ahead of the world in telephone development, to change from private management to government ownership?

Why is a more rapid use of new technical inventions apt to be made under private management?

Is it wise from the standpoint of efficiency to expand greatly the activities of the post office?

If the government cannot manage the post office efficiently, is there any hope of its managing the railways efficiently?

In what ways are the railroads less adapted to government management than the post office?

CHAPTER XII

SHOULD PUBLIC MANAGEMENT BE EXTENDED?

1. *Government management not a panacea.*—To many, government management (here taken to include ownership with management) seems an obvious, relatively simple and practicable way of dealing wholesale with monopoly conditions. The Socialist party has as its cardinal principle the enactment of legislation directed toward public management of the means of production, distribution and exchange. Others see in the government management of the railroads, of the steel industry or of the merchant marine a simple panacea for the social ills of each particular industry or, in the case of land, for the economic ills of mankind. Against this wholesale opinion practical business men and the best scientific authorities, with scarcely an exception, emphatically protest.

2. *Advantages at times greater than disadvantages.*—It must be recognized, however, that under special circumstances and in some particular lines of industrial activity, the advantages of public management are indisputable and far outweigh the disadvantages. For example, to leave in private hands certain industries which, if their exploitation were unchecked, might threaten rapidly to deplete the natural resources of a nation, may be an extremely unwise policy for the

state to follow. Private owners, who may be possessed of high personal integrity, but who as business men are not immediately concerned in the future welfare of the country, might by their actions in behalf of their companies force the public to take over the management of their particular industries in the public interest. Forestry—even the coal industry—may be cited as examples in which private ownership and management might lead to national bankruptcy of natural resources. Most people now recognize the need of our forest preserves.

3. *Importance of health.*—Industries vitally affecting the health of a nation or of a municipality may in many instances require government management. These industries include sewage-disposal plants and care of the streets and usually of the water works, all of which have social advantages under public management which overwhelmingly outweigh any disadvantages.

4. *The war and the extension of public management.*—The most unusual lengths to which, as the result of war conditions, governments have gone in the management of business have naturally aroused many questions as to the principles underlying the further extension of governmental activity. All agree that military efficiency must be the supreme goal overriding all other except internationally moral considerations at a time when nations are fighting for existence. It is well to remember, however, as Lincoln did during the Civil War, that many acts are justified as war

measures which would be unqualifiedly condemned in days of peace. No one questions that in time of war, the government should go to extremes, not only in direct military defense, but also in the indirect defense of the country, by preventing commercial losses or financial crises. All the great countries lately involved in the war have given unique and startling examples of government management in fields usually left in private hands, such as the direction of private manufacturing plants supplying war materials, the control of prices, the complete regulation and distribution of food supplies, and the various financial measures taken in order to insure the normal business life of the nation and to prevent credit demoralization. All these war measures have been justified as necessary to the self-preservation of the nations involved.

5. *Extension of government management in the United States.*—War also pushed the United States into a new era in the relations between government and the management of business. Government management of the railroads is a fact; the national control of the mining, distribution and even private consumption of coal, coke and fuel oils was undertaken, while government regulation and control has been extended in every direction. Wheatless days, meatless days, heatless days and others were more or less cheerfully endured by the American public. No doubt, these were necessary, and not imposed without due investigation and cause, but, nevertheless, they marked a new era, in which the inbred distrust of the government

conduct of business was promptly laid aside for a vast extension of governmental regulation and management. The old "laissez-faire" policy followed so long in this country, based upon the conviction that private is better than government management; that business should be left, as far as possible and consonant with justice and fair dealing, unhampered in its operations, was for the time abandoned. Generally speaking, policies adopted to meet temporary needs tend to remain permanent factors in the governmental organization of the country. Legislators always find it difficult, almost impossible, to retrace their steps; economic policies once put into action thru investigation inevitably became political questions.

6. *What will the after-effects be?*—It is as yet too soon to judge finally the after-effects of this extraordinary extension of governmental activity on the trend toward government management, which in this country, and in fact the world over, rapidly gained headway during the war. There has already been a prompt revolt from extreme positions. Scores of the leading business men who so promptly and unselfishly placed their services at the disposal of the Government in time of peril have returned to private business. Generally it seems that their experience has confirmed their former judgment of the inevitable waste and inefficiency of Government management.

It is impossible yet to balance the benefits and drawbacks of Government control and management of the

railways, telegraphs, telephones and cables, but the drawbacks are mentioned more often than the benefits. We must wait at least until the readjustment has progressed to a more complete basis before we make final judgment. Now it seems probable that the view of President Wilson as expressed in his book "The State" will be proved sound by experience. "Indeed," he says, "such are the difficulties in the way of establishing and maintaining careful business management on the part of the government that control ought to be preferred to direct administration in as many cases as possible—in every case in which control without administration can be made effectual."

7. *Extension of post office work.*—In this country the post office has been the best and largest example of government ownership and management, now, of course, largely overshadowed by the management of railroads, and the entrance of the Federal government into other business activities largely thru an extension of its work into such fields as the parcels post, banking, and the telegraph and the telephone business. It is evident to all that any further extensions of post office activities should be determined largely by the success or non-success of present lines of work and the illustrations given in the chapter on the post office do not encourage further extension.

In this whole field of government activity no principles have been definitely established on a basis of fact in this country. War time management is no test

of what a country can do in peace. Never in peace times will it receive such a favorable trial or operate under conditions so conducive to success. The cordial and generous support of business men was unstintedly given. The best executive brains in the country were placed at the disposal of the nation, and yet there were no conclusive results. Times of peace will result in different conditions; with the great likelihood that politicians, not experts, will be the guides of railway management if the railways should remain under government management. Experiences in Europe, where social conditions are largely different and where the military aspects of the question have always predominated, have in the past been used as the stock examples. Here again, one must be careful of facts, careful of purpose, careful to judge different social conditions. For example, in judging service and rates in Europe as compared with those in the United States, many varying factors, such as density of population, cost of living, taxation, and systems of accounting, must be considered before any definite answers can be given regarding the relative welfare of Europeans under government ownership as compared to Americans under private ownership.

8. *Dishonest financial methods must stop.*—On the whole, the American railroad system, when compared to those of other countries where state-owned railroads predominate, have little of which they need be ashamed and much of which to be proud. A most wonderful record, for example, is that of the Pennsylvania Rail-

road in carrying 453,952,298 passengers in more than 3,000,000 trains for a distance of 10,000,000,000 miles without a fatal accident.

Much of the feeling against the railroads in this country has come from financial juggling. It is a regrettable fact that instances of such juggling involving whole systems which can be characterized only as robbery have occurred in the last few years. Yet on the other hand we have illustrations of many railroads conservatively managed, with a long period of sustained dividend payments, fair dealings with employes and excellent service to the public. It is doubtful whether occurrences of bad management in private hands equal the inefficiency, the graft and the pork-barrel methods of political agencies. The Federal Government ownership of the Union Pacific Railroad was by no means a success. Railroad officials and financiers with the best interests of the railroads at heart must see to it that individuals of the type that managed the finances of the Frisco and the Rock Island systems are eliminated. Such practices only undo the work of legitimate industry, anger the public and make more strong the feeling that only government ownership will suffice to stop such conditions. Socialists and agitators use such examples thruout the country with telling effect. And yet such cases even now are rare.

9. *Government management of railroads in Canada a failure.*—Mr. E. R. G. Gordon, speaking before the

annual meeting of the National Civic Federation in December, 1914, said of Canadian railroads:

Leaving out the Canadian Northern, which is an uncompleted road, we have for consideration three great systems, the Grand Trunk, the Canadian Pacific and the Intercolonial, the latter owned and operated by the Canadian government. Both the Grand Trunk and the Canadian Pacific pay annual dividends. The former has usually declared five to seven per cent, the latter has yielded dividends up to twelve per cent. The Intercolonial Railway is known far and wide over Canada as "Canada's White Elephant." This government railway embraces 1,449 miles. It stretches from Montreal eastward thru the Maritime Provinces for a distance of more than a thousand miles. It taps the rich iron and coal mines of Nova Scotia and has a rail monopoly of that transportation. It ought to be the best paying railway system in Canada, but it is the worst.

The government has sunk over $83,000,000 in this railway. Its gross earnings in 1909 were $8,602,286 and its working expenses were $9,052,522, leaving a deficit of $449,536. In 1912, the best year the road has had, the operating expenses were $10,593,785, showing a surplus of $2,750. But the interest charges on the cost of this "white elephant" amount, at four per cent, to $4,520,279 a year, and the loss in taxes to $700,000 annually. Thus we see that in its best year this socialistic railway lost more than $4,000,000 net.

A writer in the *Toronto Mail and Express* stated in 1907 that the Intercolonial Railway had lost an average of nearly $4,000,000 a year for the preceding five years. The writer has traveled over the Intercolonial all the way to Sidney, N. S., and also over the Canadian Pacific Railway and the Grand Trunk. In reply to his question as to why this government railway failed to pay, one old farmer said: "Well, you see, the boys that run this 'white elephant' think more of getting the votes on election day than they do of getting the trains in on time." It costs $7,500 per mile per year to

operate this socialistic railroad, as against only $5,000 for the Grand Trunk, and even less for the Canadian Pacific. In other words, experience proves again that bureaucratic management of industrial enterprises always means waste, extravagance, inefficiency and political bossism.

10. *Government-managed railroads in France not a success.*—Another bit of worth-while evidence, important because of its European source, comes from one of the best known and most reliable of European economists, Professor Paul Leroy-Beaulieu of the Collège de France, who, writing in the *North American Review* of March, 1913, and speaking of the Western Railway, the largest and most important of the old government-owned railroads in France, says:

> The state management of the Western Railway has been from the very start, and continues to be, a great financial and technical disappointment. For the first two years the whole line was in absolutely chaotic condition. The trains were never on time and the worst possible accidents were continually happening, whereas under the old management not a single passenger had been killed for ten years. Today the technical side is better than it was at first, but not better than it was under the old company. The financial results, however, could not be much worse than they are, and are a great load on the State Treasury.
>
> In the year 1908, the one preceding the operation of the road by the state, the Western Company had a net deficit of twenty-seven million francs, and consequently, in accordance with the plan then in force, the company borrowed from the state this sum with which to pay the interest on its bonds and shares. In 1909, the first year that the State had control of the roads, this deficit rose to thirty-eight million, five hundred thousand francs, and continued to rise as fol-

lows during the succeeding years: 1910, 58,500,000; 1911, 71, 250,000; 1912, estimated 84,500,000, and 1913, estimated, 90,000,000 in round numbers. While I am writing these lines M. Cheron, Deputy and a former Assistant Secretary, publishes a report on the subject in the name of the Budget Committee of the Chamber of Deputies. He belongs to the Radical party, but has to admit that the figures of the estimated deficit for the year 1913 are "very disquieting," and adds that the estimated deficit for 1912, as well as that for 1913, is largely attributable to salaries of the employes, the increase under this head being 52,000,000 francs since the state took the road. In the Government offices, at least in France, there is always a tendency to over-increase the number of the employed. But in this way more citizens are made happy, and the party in power fares better at the elections.

Thus, as we have seen, the trial of state ownership in France is directly against that system, and consequently public opinion is now completely opposed thereto, especially enlightened, as it now is, by the financial and other shortcomings which have followed the state operation of the Western railway. It may be regarded as certain that, notwithstanding the seventy Socialist Deputies in the Chamber, it will be a good many years before another French Minister of Finance will venture to propose the state's taking over another railway.

This would indicate that European peace experience, so often put before the American public in such a favorable light, has another side.

11. *Conditions under which government management may be a success.*—Many years ago, in 1867, when the question of the purchase of telegraphs and railways was pending in Great Britain, W. Stanley Jevons, one of the most careful and unprejudiced

investigators of the last century, stated that in his judgment state management possessed advantages under the following conditions:

(1) When numberless widespread operations can be efficiently connected, united and coordinated only in a single, all-extensive government system.

(2) When the operations possess an invariable, routine-like character.

(3) When they are performed under the public eye, or for the service of individuals who will immediately detect and expose any failure or laxity.

(4) When there is but little capital expenditure, so that each year's revenue and expense account will represent with sufficient accuracy the real commercial conditions of the department.

In other cases he thought government management unwise.

Jevons thought the post office, in carrying letters, was a success, while in the same article he asserted that it is

> but too sure that some of the state manufacturing establishments, especially the dockyard, form the very types of incompetent and wasteful expenditure. They are the running sores of the country, draining away our financial power.

In 1875, summing up the experience for some years of the post office with the telegraph, he regretted "the financial failure of the telegraph department . . . because it puts an almost insuperable obstacle in the way of any further extension of government industry in the present generation."

He favored strongly a parcel post, but said that "the experience with the telegraph department demonstrated that a government department cannot compete in economy with an ordinary commercial firm subject to competition."

Yet Jevons liked the idea of a parcel post and, four years later, in 1879, he urged strongly the adoption of a state parcel post for small packages, on the ground that it would be "a really great work of social reform to be achieved." He believed "it would be the harbinger of universal free trade if made international." His reasons were social and political, not economic. The same line of argument, however, seemed to convince him that it was not practicable or wise for the state to take over the railways, chiefly on account of the complexity of management and the waste that would be almost certain to result from government administration.

12. *Many erroneous statements made as to costs.*— In the published statements of the relative cost of privately and publicly managed industries, many erroneous statements are made, based largely on inadequate analysis from an accounting standpoint. In the case of city-owned establishments, the direct expenses are regularly given, but overhead charges are rarely properly reckoned. Would any portion of the mayor's salary be included for general oversight? The chances are ten to one that the offices would be located in a municipal building which would be free from rent. No taxes would be paid to the city.

Many items are usually left out that should be included in a comparison between a municipally owned plant and a privately owned establishment. If the comparisons were made fairly, and the reports included all items of cost, the figures would rarely be favorable to city management.

13. *Fallacies in government figures.*—Practical illustrations of the differing ways in which government and private costs are figured were given a few years ago in the proposal for a government owned armor plant. The Secretary of the Navy estimated that the government could make armor at $262 per ton in a plant of 10,000 tons' output running at full capacity. The prevailing price at the time this estimate was made was $425 a ton. This difference was claimed by the government as an advantage of government manufacture over private manufacture. The Bethlehem Steel Company claimed, however, and rightly so, that this was fallacious as the estimated cost covered only labor charges and no general expenses, no insurance, taxes or depreciation of plant, no interest on investment and no capital cost.

But these items must be paid in one way or another. All these items must be covered, if not by the industry, then by taxes. Even government estimates of necessary items in such cases have often been notoriously underestimated. Correct accounting methods would make a vast difference in many of the statements regarding the supposedly low cost in government plants.

Regarding government accounting it is worth while

to quote a few statements as to the methods employed in government affairs. President Taft, in his message to Congress, January 7, 1912, in speaking of economy and efficiency in the government service, said:

> No general system has ever been devised for reporting and presenting information regarding the character of the expenditures made, in such a way as to reveal the actual costs entailed in the operation of individual services and in the performance of particular undertakings; nor in such a way as to make possible the exercise of intelligent judgment regarding the discretion displayed in making expenditure and concerning the value of the results obtained when contrasted with the sacrifices required.
>
> With large interests at stake, the Congress and the Administration have never had all the information which should be currently available if the most intelligent direction is to be given to the business in hand.

The Saturday Evening Post, in an editorial of December 14, 1912, puts the issue in the following words:

> There is hardly a state, city or town in this country that makes an intelligent statement of its fiscal operations and conditions.
>
> Every state, city and town publishes once a year a thing it calls a treasurer's report or an auditor's report—usually a very bulky thing, containing an interminable maze of figures. We venture to say offhand, that, as to about two-thirds of these reports, the best expert accountant in the United States could not construct from them such a concise and intelligible showing of income, outgo, indebtedness and cash on hand as the New York Stock Exchange requires from every corporation whose securities it lists. As to three-quarters of them, we venture to say that, if any such confused, occult statement were laid before the directors of

a railroad, those directors would stand up in righteous indignation and discharge the whole accounting department on the instant.

Very properly we demand publicity for corporation affairs. Why not demand intelligible publicity for public affairs? Look up the last annual report for your state, city or town and see what you can make of it.

Dr. Frederick A. Cleveland, former Professor of Finance in the School of Commerce, Accounts and Finance of New York University, director of the Bureau of Municipal Research, New York City, and chairman of the Federal Efficiency Board, an authority on efficiency in city government, in an article entitled, "The Need for Coordinating Municipal, State and National Activities," states that:

If a citizen were to undertake to inform himself about the government of the United States he would have before him a life work. Even the preparation of a statement of expenditures for work would require the analysis and recapitulation of reports prepared pursuant to ninety different acts of congress, which result in nearly two hundred reports relating to financial matters. The hopelessness of the quest further appears when it is found that in no two departments, and in many instances in no two bureaus in the same department, is the same classification used. It is therefore quite impossible to get together a statement of expenditures which will show the cost of activities for the government as a whole.

14. *Why private management is more efficient.*— From the standpoint of accounting, then, a careful checking up is necessary before we can get an accurate idea of the efficiency of government management. But why are private plants more efficient than those

under government management? Public management means a suspension of the struggle for existence which private management must always undergo. This suspension of the struggle for existence in public management applies to every grade of labor concerned—directors, managers and employes. The profits and losses of a privately owned business affect those engaged in it, while the profits and losses of publicly managed businesses are passed on to the public. In public business, the maximum of efficiency is particularly difficult to attain. The tendency is toward over-organization. In any movement to reform the administration of public business the line of least resistance is usually followed, which generally means to get along with as little friction as possible, and to change as little as possible.

In private business, success comes only from a policy of activity and enterprise, of initiative and energy. The force of workers is keyed up, efficiency is the aim, and the results must be shown. Administrative reforms can be made and are not questioned. The director in a private concern is a general. The head officer in a public concern is generally a success because he is a pacifist, and because he uses methods that please.

15. *Private business dynamic.*—In matters of appointments or promotions, public business again is at a disadvantage, for, as a rule, appointments are made from civil service lists, and promotions must be made by seniority. Relatively speaking, while subordinates

are often overpaid, the higher grades of employes are poorly paid. Security takes the place of opportunity. In private business, promotion generally comes from efficiency and production of results. High salaries are paid to the leaders because such outlay pays in the long run. Opportunities for successful men are greater, while the inefficient are vigorously weeded out. Opportunity will always attract the more progressive and the more ambitious. Public business tends to be static, private business is dynamic. Public business is forever trying to secure efficiency thru economy, while private business aims to secure economy thru efficiency. Along these lines a tremendous advantage lies on the side of private business.

16. *Government management seldom a source of revenue.*—Government management is often advocated because, it is claimed, it is a profitable source of revenue to the state. The statement of *The Telephone and Telegraph Age* of New York, in its issue of February 16, 1912, speaking of the British experience with the telegraph and telephone, is worth quoting in this connection.

> Forty-five years ago, in 1866, the proposal for the purchase by the government of the British telegraph lines was first advanced, and an allegedly conservative estimate set the cost at $11,500,000. It took nearly three years to complete the negotiations, and in 1869 Parliament appropriated $35,000,000 for making the purchase—more than three times the original estimate; but in addition to that, the government was called upon to pay the railway companies for their freehold interest in the telegraph equipment running

along their lines, the right-of-way having only been based by the telegraph companies; that meant another $20,000,000 —so that the acquisition of the business stood the British government $55,000,000. It was still predicted that within twenty years the new revenue would materially reduce the tax rates on the properties of the people. The disillusionment came quickly. For the first two years of the government operation there was a small net revenue, but after that the returns could not be made to meet the interest on the capital investment, and for the thirty-nine years this enormous interest has been paid out of the exchequer—the pockets of the people. Then telegraph rates were reduced under the popular cry that reduced rates would increase the business and that increase would produce profits—but just the reverse was the result. The cost of maintenance and operation increased enormously under government ownership; and the revenues falling far below this, and the upkeep and necessary improvements constantly calling for more money, the drain on the exchequer became increasingly heavy.

In fact the treasuries of nearly all countries which manage telegraphs and telephones present annually occurring deficits, in many cases running into large figures. These are also made good by taxation. The history of our post office shows one deficit after another.

Labor often makes the plea that conditions of work will be much better under the government, and state-owned and managed industry is advocated on this score. Possibly this is true in some cases, but certainly not in all. Is the Federal service, for example, preferable, from the labor standpoint, to the service of the United States Steel Corporation, of the American Telephone and Telegraph Company, of the Penn-

sylvania Railroad with their welfare work, their business systems, and their quick recognition of ability? Possibly for many of the workers of the lower grades yet never for those of the higher. And wherever the workers of the lower grades receive wages higher than those of like grade in private employ, it must be kept in mind that the product does not pay these wages; the taxpayers pay them.

17. *Dangers of a large civil service.*—From another angle this question of labor in a wide range of government ownership would present a very great problem. Professor C. F. Bastable, professor of Political Economy at the University of Dublin, in his book on Public Finance, says:

> One difficulty common to most forms of state industry arises from the necessity of dealing with large numbers of employes. The tasks of the modern State are sufficiently varied and comprehensive to take up all the ability and time of administrators, without adding unnecessarily to their duties. Public industries, however, require for their efficient working a body of organized hands, obtained by free contract. An unavoidable consequence is the possibility of disagreement between the State and its helpers, culminating perhaps in the last weapon of industrial war—strikes. The position of the public powers is in such cases a trying one. The agency that is bound to enforce order and fair play is one of the parties to the dispute; the national disposition of an administrator in a popular government is to make things smooth by yielding to the demands of the discontented, a course that involves additional expense and injuriously affects the financial position. The pressure of the consumer—that is the community—for low rates, and that of State officials for better conditions of service, is the most serious financial risk that the industrial activity of the

State is likely to encounter. The Prussian railway service controls its 80,000 employes on an almost military system, aided by the organization of the national army. But any attempt to direct the railway system of the United Kingdom on a similar plan would be hopeless. These facts and arguments ought not to be overlooked in America.

18. *Could dominate country thru vote.*—Senator Jonathan Bourne, Jr., in speaking of the eventuality of government ownership of the telegraph and telephone lines as advocated by Postmaster-General Burleson, is of the opinion that government ownership would result eventually in complete domination of the government by its own employes, who would vote themselves such hours and such pay as they chose. He estimated that the taking over of the telegraph and the telephone, of the railways and electric lines, water transportation and the express business would result in adding more than 2,500,000 employes to the Federal service. He says:

> Taking into consideration the fact that in the last ten presidential elections, the President has been elected by a plurality varying from seven thousand plus to little over two million and a half, the thought naturally arises that three million government employes would absolutely control the government of our political machinery, the tendency being more pay, less service in government employment resulting in resistless efforts on the part of outside labor to secure government employment.

19. *Questions to be asked.*—All in all, there are distinct limitations to the value of government management, from the standpoint of the public, from the

standpoint of the consumer and from the standpoint of the wage-earner. Altho public ownership is not solely an economic question, in the main it is a business proposition which must be justified by its economic results. Even the economic results of the parcel post in the United States are still not clear and are at present the subject of controversy, while, judging from the results obtained in other countries with state-owned telegraphs and telephones, it would seem as if in these particular fields we need exceedingly careful study before going further. At least, for our own welfare, we should thoroly examine many questions before further steps are taken in putting additional industries under post office management.

Will the extension of such power give more opportunity for public corruption and more abuses rather than fewer? What will be the political effect of a greatly increased number of civil service employes? Will the extension of power result in a bureaucracy, and will it prove injurious to the progress of our country? Will rate-making be determined by ignorance and political pressure rather than by expert knowledge? Will the public pay for inefficient management and deficits in unjust taxation of the non-using public and thru injury to the public credit? The consumer is interested in knowing whether government management will mean better service, or poorer, unprogressive and dearer service, while the wage-earners, especially the self-reliant and well-

trained, ask whether their chances for promotion will be fewer or more?

20. *The public must be sure of facts.*—If the government is to extend its management we must be sure of our facts, in order that our guiding principles may be sound. Of course, in war times sudden and imperious needs require quick action and we cannot wait for the slow process of economic law to work a remedy. Legislation, however, of this war-time character passed solely for immediate results may commit this country to policies which later, thru inertia and political influences, may be difficult, almost impossible to alter. In peace times there should be no undertaking of new activities on the part of the government without careful consideration of the principles upon which it is acting and without accurate, definite knowledge of the facts by which it should be guided.

21. *A remedy to be sparingly applied.*—In general it may be said that government management is a remedy to be applied only after the means of adequate government control are found to be neither workable nor available. Government management is a policy to be applied in a limited way, and then only after due consideration has been given to other remedies. It may be true that the special character of an industry or the peculiar circumstances under which it is carried on, involving large political, social and ethical questions, may override the disadvantages of government management. The Government, however, with its

multitudinous activities, has a tremendous task ahead of it to work out principles of administrative efficiency and to perfect existing methods of control and regulation. It seems, therefore, that a general policy of government management would only add to these difficulties, and would result in the loss of national industrial efficiency, bringing no real return to the wage-earner and a loss to the consumer. If either or both profit, it will generally be at the direct and unjust expense of the taxpayer.

22. *Fundamental principle is public welfare.*—The fundamental principle to keep in mind is the promotion of public welfare. Every country needs to be studied by itself. In making comparisons between the experiences of different countries we should be careful to take into account all determining factors—a practice that has by no means been followed. In our country, we may practically ignore the military aspect of the question. The political viewpoint is largely a matter of party policy, while, regarding the social, financial and economic aspects, there have been very decided differences of opinion. The arguments on neither side have rarely, if ever, been worked out carefully and without prejudice. Judge Elbert H. Gary states the issue well:

> The guiding principle of the day should not be: "Let us be prosperous" but rather the broader one, "Let there be light." The rule-of-thumb days are passing. It is pre-eminently necessary for the people to be rid of panaceas and propagandists, of political theorists and demagogues, and

to return once more to the simple facts as they are developed by experience. Let us emphasize these basic truths, and the judgment of the average thinking man may be relied upon to evolve the principles of action which are essential to the prosperity and happiness, if not to the very existence, of the nation.

REVIEW

Under what circumstances should government industries be run for profit?

Should the government retain absolute control of all natural resources, or would this be an unwise restriction on development?

What is the comparative relation, if any, between telephone and telegraph companies?

Arrange in order the difficulties which a state would have in undertaking the management of (1) The United States Steel Corporation, (2) Wireless telegraphy, (3) The International Mercantile Marine, (4) the long distance telephones.

If the balance of power of the Federal electorate were in the Federal service, how could they be prevented from getting what they demanded in wages and conditions of labor?

Why do private plants have better accounting systems than public departments?

Explain the lessons learned regarding Government management thru our experience with the railways, telegraphs and telephones during the time of war.

CHAPTER XIII

WAR: PROMOTION AND REGULATION OF INDUSTRY[1]

1. *Council of National Defense.*—Several months before the entrance of the United States into the war it became evident that the welfare of the country was threatened indirectly, if not directly, by the war. Congress, under an act of August 29, 1916, established the Council of National Defense together with an advisory commission to cooperate with it. An ex-officio board to the council was composed of the Secretaries of War, Navy, Interior, Agriculture, Commerce and Labor. According to the act, the advisory commission was to be made up of distinguished persons "each of whom shall have special knowledge of some industry, public utility, or the development of some natural resource, or otherwise be specially qualified in the opinion of the Council for the performance of the duties hereinafter provided." As constituted, the commission represented railroads, manufacturers, bankers, merchants, labor men, physicians and teachers.

[1] In the preparation of the chapters dealing especially with the war, frequent use has been made of the excellent compilation "The Governmental War Agencies Affecting Business" prepared by the National Association of Manufacturers.

This acknowledgment will take the place in these chapters of specific acknowledgment of each case, and in some instances of direct quotation.

The special purpose of the creation of the council and of the advisory commission was to bring about the cooperation of the industries and the resources of the country to promote national security and welfare. With the entrance of the United States into the war its work naturally assumed much larger proportions and became of much more vital importance.

2. *National Research Council.*—The National Academy of Science, an organization working under a congressional charter for war purposes, created a national research council. By resolution of the Council of National Defense this research council was to cooperate with the council of defense in matters pertaining to scientific research. It was also to act as a scientific research division of the Signal Corps of the army as well as to do similar work for other government departmnets.

The council created a research information committee in Washington, with branch committees in Paris and London, to work with the officers of the military and navy intelligence services, with the duty of securing, classifying and disseminating scientific technical and industrial research information specially relating to war problems, as well as to interchange such information among the various governments at war with Germany.

In order that the council's work might be most effectively carried on, the President designated, upon the nomination of the National Academy of Sciences, certain representatives of the government as members of

the council. The work of the council was apparently very efficient along the lines of its activities.

3. *Committees.*—In order that the advisory council might secure the cooperation of leading scientists and business men, under each one of the members there were created committees to make investigations and reports with recommendations for action to the advisory commission to be transmitted by it to the Council of National Defense for positive action. There were a number of important committees such as the one on women's defense work and highway transport committee, thru whose recommendations there was developed for war purposes a highly efficient motor truck service; a committee on labor, largely thru whose efforts and recommendations labor committees were created which affected very materially and favorably actions of labor men in connection with the war; a general medical board whose recommendations had decided influence in making provision for an increased medical service both at home and abroad in connection with the war; a committee on education, and others.

4. *Government contracts.*—Before the entrance of the United States into the war the work of the Council of National Defense and of the advisory commission consisted largely of collecting and digesting material which would serve to show the resources of the United States, including not only the material resources but also the organization of manufacturing plants, the quality of the personnel in different establishments, the labor force of different kinds, and the possibilities

of a prompt and effective reorganization for direct war purposes should the United States itself become involved in the war.

As soon, therefore, as the United States entered the war prompt action was taken to make the work of the Council of National Defense effective. Naturally the government had to undertake a rapid expansion of its own manufacturing facilities in its shipyards, its arsenals, technical colleges, training camps, and elsewhere In addition to this, it had to provide for production of war materials of all kinds on a much larger scale thru private agencies, by private contracts of various kinds.

Owing to the suddenness of the emergency and the need of immediate purchase of supplies and production of defense and war material of all kinds, many of the earlier contracts had to be drawn without full knowledge of details. In consequence, in many instances orders were given for supplies definite as to quantity and quality, but with the price left to be established later at the discretion of the government.

In numerous other instances contracts were let on a basis of cost plus a modest percentage of profit, usually 10 per cent. Inasmuch as the question of cost is always a complicated one, and as contracts of that nature are peculiarly susceptible both to fraudulent manipulation on the part of unscrupulous manufacturers and dealers, and to innocent miscalculation thru ignorance of technical details or carelessness or inefficiency, the government promptly secured the

services of some of the best trained accountants of high reputation, together with legal counsel of high standing to assist in the drafting of contracts and in the specifications by which the costs of production should be determined. Their conclusions formed the basis of the cost plus contracts.

In spite of this care, however, there was much dissatisfaction on the part of both the government officials and the private producers with the cost plus contracts, and as the business became better organized the tendency was to lessen the number of such contracts and to fix more specifically the price at which goods of specified kinds should be sold to the government.

5. *Principles of price-fixing.*—In order to avoid unnecessary cost the government adopted the policy as far as possible of dealing directly with the manufacturers and producers. Invariably in such emergencies efforts are made by unscrupulous persons to take advantage of a country's necessities. Many brokers at once appeared offering to procure contracts from the government as agents on a contingent fee basis. Such action was promptly discouraged, altho of course it was essential in many cases that agents be employed to furnish technical information to both sides in connection with the making of the contract. Wherever any commissions were paid in such connection the normal legal limitation is that they must be those allowed by "established custom of commission merchants and brokers." Usually such expert information and pres-

entation of facts should be performed by regularly salaried representatives.

Again, to avoid this difficulty of unfair charges, the government endeavored to select as far as was practicable in the time of emergency well known, trustworthy establishments for its important contracts, or to secure their cooperation in establishing proper methods of procedure. Bidding thru third parties was discouraged as much as possible. Whenever practicable the peace method of open bidding was followed. In other instances, however, where it was impossible to secure an ample supply at any price, purchases were made by private contract for the creation as rapidly as possible of additional supplies. It was the policy of the government to have as great publicity as possible, both before bids were received and after awards were made, the entire record in most cases being open to inspection at any time by parties interested. Still further provision was made forbidding the transfer of any contract or order or interest, in order to avoid securing contracts for mere speculative purposes, such transfer being sufficient reason for the annulment of a contract or an order.

All contracts were of course subject to existing provisions of the United States law. One of the most interesting and at first most bitterly discussed limitations had to do with the eight-hour law for labor. In an act of August 1, 1892, relating to the public works of the United States, a provision was made for eight-

hours' work on government contracts. In an act of June 19, 1912, a proviso was made that "the President, by executive order may waive the provisions and stipulations in this act as to any specific contract or contracts during time of war or at time when war is imminent."

The question was somewhat further complicated by a provision in the Navy Appropriation Act of March 4, 1917, inserting a condition requiring that "in case the provisions as to hours of labor are waived by presidential order, time and a half for overtime must be paid." This modification seemed to make the last two acts quoted rather a type of wage law than an hours-of-labor law.

Inasmuch as some material was being provided by the work of government arsenals, others by contract, as some were under the provisions of the Navy Appropriation Act, others under different laws, naturally there were various interpretations affecting different contracts. As will be seen later, most of these matters were settled by conciliatory methods; but much discussion and much delay thru strikes and threats of strikes were at first the result.

In order to secure accurate information and an intelligent fixing of prices, the government secured the assistance of highly trained business men in numerous fields of business, oils, steel, cotton, fabrics, wool, dye stuffs, munitions and materials of all kinds. Very many of these experts from patriotic reasons offered their services without compensation. Too high praise

cannot be awarded to many, who at great cost to themselves, often with no public recognition and sometimes in the midst of embarrassing, ignorant criticism and accusation, gave their services loyally to the government.

6. *Fault of organization.*—The purpose of the government in the establishment of the Council of National Defense and of the advisory commission had been to secure the greatest degree of efficiency possible by keeping the executive power in the hands of the responsible officials of the government members of the cabinet under the immediate control of the President, while at the same time securing the highest possible degree of expert assistance from the advisory commission. It soon became evident, however, after the enormous increase of business imposed upon the government by its entrance into the war, that there was a serious fault in this form of organization. The members of the Advisory Commission, as well as many of their chief assistants, were highly trained business men of marked ability and long executive experience. They had been in the habit of knowing their business and of making quick decisions and of exercising positive authority. In their work for the government they could merely give advice without the certainty of their advice being accepted. In some cases, under the pressure of what seemed to be the necessities of the moment they took the responsibility of instituting business thru contracts informally agreed upon with the expectation that these contracts

would later be formally confirmed and that their suggestions would be adopted. While all parties were working in good faith, and while in consequence this procedure did accomplish results, nevertheless the uncertainty of final action aroused much friction and doubtless in many cases increased the cost. Again, some of the cabinet members, ex-officio members of the Council of National Defense, were not business men accustomed to dealing promptly and decisively with large business affairs, but more accustomed to weighing arguments and reaching decisions on logical grounds. Moreover, the tremendous burden of work and the necessity of frequent absence from Washington on government business, as well as at times on private business of both members of the advisory commission and their chief assistants and of members of the cabinet frequently cost further delays in reaching important decisions. This form of organization, by which members of the advisory commission and their assistants were practically compelled to take the responsibility of working out details of contracts and of supervising the carrying out of most important lines of activity, while they lacked the authority to put into effect or to direct absolutely the activities of others, is probably the chief reason for the delays that have aroused so much criticism in this country and abroad, and for most of the charges of unnecessary waste and of corruption. Happily there is little ground to believe that there was corruption on a large scale, and the waste in efficiency was probably largely

inevitable from the suddenness and enormousness of the tasks imposed, combined with the faulty organization.

Various attempts were made to overcome these difficulties. Some members of Congress advocated the creation of a special war cabinet with full power to direct all war measures and with the understanding that leading business men of wide executive experience should form the members of the war cabinet. The President, however, believed that with the power in his own hands and directed thru the existing cabinet the required results could be secured. Doubtless the decision for more vigorous action was hastened by certain investigations, public reports by the Senate, and by the introduction of the bills suggested above. At length authority was given the President under date of April 29, 1918, authorizing him to reorganize, practically at his discretion, the war activities of the government.

7. *War Industries Board.*—In connection with the advisory commission of the Council of National Defense there had been a considerable organization of the war industries of the country, and much had been accomplished. Under date of March 4, 1918, with the idea of more effective organization in the production, purchase, delivery and control of war supplies, both for our own armies and for those of the Allies, the President asked a member of the advisory commission to accept the chairmanship of the War Industries Board, but making this further provision, that the

board, while it should retain as far as was consistent with the character of the reorganization its advisory agencies "the ultimate decision of all questions, except the determination of prices, should rest always with the Chairman, the other members acting in a cooperative and advisory capacity."

In determining prices, the chairman should be governed by the advice of the committee, consisting, besides himself, of the members of the board immediately charged with the study of raw materials and of manufactured products, of the labor member of the board, and aside from these, of the chairman of the Federal Trade Commission, the chairman of the Tariff Commission, and the Fuel Administrator.

The chairman was to act for the joint and several benefit of all the supply departments of the government; to interfere as little as possible with the existing prices; to guide and assist wherever it seemed necessary, especially in the allocation of contracts, in the disclosure of sources of supply, etc.; to decide as to priority of need or delivery in case there was competition from the same sources of manufacture; to follow up contracts and deliveries so as to secure more prompt action; and to anticipate the prospective needs of the different supply departments "in order that as definite an outlook and opportunity for planning as possible may be afforded the business men of the country;

"In brief, it should act as the general eye of all supply departments in the field of industry."

Here, at last, was an organization responsible di-

rectly to the President with power of decision and with decision finally in one man.

8. *Aircraft Board.*—In connection with the advisory commission of the Council of National Defense there was early provided an Aircraft Production Board, consisting of a chairman and two other civilian members, three members of the War Department and three members of the Navy Department. The function of the board was to give advice and suggestions to the War and Navy departments for the direction of their work in this field. Immediately upon the entry of the United States into the war the board naturally assumed much greater activity. Under its preparation and advice, and on the recommendation of the Secretaries of War and Navy, Congress passed the first great appropriation of $640,000,000 for aircraft production. Under its immediate direction also were made the very intensive, rapid, and, as it has eventually proved, most successful studies which created the Liberty Motor for aircraft. Likewise, under its advice were built the great aviation fields, were established the aircraft training schools, and were made most of the important contracts for the production of aircraft in all fields, engines, body of planes, scientific and observing apparatus, etc.

Since, in the progress of the war, the inadequacy and administrative inefficiency of the organization under the Council of National Defense had been noted already, the Aircraft Production Board prepared a new plan which, under the provisions of the law of

October 1, 1917, created the Aircraft Board to direct and supervise on behalf of the Departments of War and Navy as authorized by the Secretaries of those departments the purchase, production, and manufacture of aircraft in all of their various features, and to make recommendations regarding contracts. The board was also to have direct control of all appropriations for aircraft and aircraft accessories and supplies. After the reorganization which had been found essential by the earlier Aircraft Board, the work progressed with renewed and rapidly developing success. The chairman of the board has taken the lead in giving full credit to the excellent work done from the beginning by most of those who had to overcome the initial difficulties of building up a new organization in a new field requiring the production and adaptation of new inventions under a form of organization which in all fields proved inefficient.

9. *National Advisory Commission for Aeronautics.* —Under provisions of even earlier laws, March 3, 1915, August 29, 1916, and March 4, 1917, a national advisory committee of aeronautics was provided to cooperate with various government departments and private institutes of research in universities, etc., concerning the application and development of aeronautics. This committee issued technical reports and directed and supervised the scientific problems of flight. Beyond any question, much of the success of the work in aeronautics both here and abroad is due to its scientific studies and care.

10. *Priority.*—One of the greatest difficulties noted in both Great Britain and this country as they entered into war production was the confusion arising from the overcrowding of transportation facilities and the lack of necessary coordination in the production and delivery of essential supplies. In every industry, of course, there is a series of processes which must be followed in due order. Unless great care is taken to have the raw materials delivered in the required order, to have the semi-finished products duly arranged, and all the other processes fitly coordinated, confusion instead of efficiency will result. In consequence, the advisory commission of the Council of National Defense early established a priority commission which should recommend a certain order of precedence in shipments of products, in production of materials and such matters. It was not, however, until the reorganization of the War Industries Board that this work became fully effective. The priority division then became highly effective thru the issuing of priority certificates to certain individuals, advising them that a designated order had been given a certain classification, requesting them to give it the priority to which that class of orders was entitled. No given plant, no designated class of industries received a blanket certificate, nor did either any of the Allied governments or a department of the United States government receive such general priority classification; but wherever application for assistance was made, when the matter was urgent and the applicant

could procure promptly needed materials and supplies only by priority, such action was taken. The Division did not consider questions of priority of foods or feed, nor did it deal directly with transportation or with export or import licenses, as provision had been made for those elsewhere. It did, however, issue a special preference list number 1, to govern the delivery of fuel to certain industries which were in immediate need, and it likewise certified certain additional classes of industries and some individual plants whose operation was of special importance as a war measure. As these plants and classes of industries were certified they were automatically included in the preference list. The list naturally grew steadily during the continuance of the war, and as the exigencies varied the various articles were readjusted.

11. *Conservation.*—There was great need, too, of securing the cooperation of manufacturers and merchants to secure economy in the use of materials, not only in the war industries themselves, but likewise in manufacturing and commercial business. For example, a scarcity of wool for the production of uniforms brought about thru the cooperative action of manufacturers of woolen goods certain standards of mixtures of wools and cottons so as to lessen the demand for wool without sacrificing the interests of patriotic producers to the unscrupulous selfishness of others who might desire to make profit from the needs of the government. This is but one illustration out of many to

show the good effect of intelligent direction of willingly cooperating industries.

12. *Shipping Board.*—It became evident some months before the United States entered the war that in order to protect the commerce of the United States as well as to enable it to take advantage of its industrial opportunities there must be a rapid increase in its merchant marine. In consequence, the United States Shipping Board was established by the law of September 7, 1916, and its power broadened by supplementary law of June 15, 1917, which authorized the President to give priority control to shipping material and supplies and appropriating necessary funds for doing the proposed work efficiently. Under additional legislative authority the Shipping Board created the Emergency Fleet Corporation to construct, purchase, equip and charter vessels for commerce of the United States. This act, which of course affected directly the shipbuilding and commercial business of the country, affected indirectly very many lines of manufacturing and merchandising. A detailed discussion of this work will be found in the volume on Foreign Trade and Shipping.

13. *War Trade Board.*—By executive order of October 12, 1917, a War Trade Board was established as a war measure to enforce primarily the provisions of the Trading with the Enemy Law, and to a considerable extent the Espionage Law.

The board regularly negotiated with foreign gov-

ernments along the lines indicated, and directed thru an elaborate system of licenses the exports and imports of the United States in such a way as to promote the efficacy of all war measures and to hamper and so far as possible destroy the enemy activities. Likewise, in the volume on "Foreign Trade and Shipping" the work of this most important board, which perhaps affected personally more business men than any other, is fully considered.

14. *Railroad administration.*—Even before the entrance of the United States into the war it became evident that there must be coordinated action among the railways in order to avoid dangerous congestion. Consequently it was provided, as early as August 29, 1916, in the Army Appropriation Act that the President in time of war might thru the Secretary of War assume control of any system or systems of transportation for all purposes connected with the emergency. In consequence, by special proclamation, the President did assume control at noon, December 28, 1917, of all the railways, their equipment and appurtenances, and appointed William G. McAdoo as Director-General of Railroads.

The first order of the director-general swept away for the time of the emergency all the legal restrictions preventing pooling, common use of railroads and shipping and practically established all the railways of the United States as one system.

The volume on "Railway Traffic" gives a detailed

discussion of the methods and results of this movement.

15. *The War Finance Corporation.*—The extraordinarily rapid expansion of industrial establishments and of banking credits necessitated by the unprecedented demands for supplies of all kinds to meet the needs of the war made it necessary, of course, to provide a special committee for financing business. In consequence, in the early stages of the war special provision was made in many of the contracts by which the government bore either directly or indirectly thru advance payments the costs of building manufacturing plants, providing raw material and such matters. As the war went on it became clearly evident that such financial measures should be systematized, centralized and controlled. In consequence, by the law of April 5, 1918, there was created a War Finance Corporation with a capital stock of $500,000,000, all to be subscribed by the Secretary of the Treasury and owned by the United States, and with the power to issue and have outstanding, bonds aggregating not more than six times its paid-in capital. This corporation was empowered and authorized to make advances for periods not exceeding five years to banks, bankers and trust companies, who, after April 6, 1917, should have outstanding any loans to any person, firm, corporation or association conducting an established and going business in the United States whose operation shall be necessary or contributory to

the prosecution of the war, but in a sum not to exceed 75 per cent of the face value of any such loan. The advances might be increased to 100 per cent of the face value of the loan provided additional collateral security were furnished equal to at least 33 per cent.

The War Finance Corporation might also in exceptional cases make advances directly to any person, firm, corporation or association of the nature mentioned above when, in the opinion of the Board of Directors of the War Finance Corporation such concerns were unable to obtain funds upon reasonable terms thru banking channels or from the general public. The loans were to be limited to not over five years in time, and to be subject to such rules and regulations as the War Finance Corporation would prescribe. They might not at any time exceed an amount in excess of 12½ per cent of the sum of the authorized capital stock and the outstanding amount of bonds of the War Finance Corporation existing at the time when such advances were made, with the exception of advances made to railroads under government control.

The $500,000,000 provided as a capital stock of the War Finance Corporation became in good part a revolving fund by the very provision that the War Finance Corporation might issue its bonds to an amount not greater than six times its paid-in capital. Such bonds, both as to principal and interest, are free from all taxes except estate or inheritance taxes, and graduated additional income taxes, known as surtaxes,

on excess profits, and war profits taxes. Interest on an amount of such bonds not in excess of $5,000,000 owned by a single owner is also exempt from the graduated additional income and other war taxes.

The War Finance Corporation is managed by a Board of Directors consisting of the Secretary of the Treasury and four other persons appointed by the President and confirmed by the Senate.

The War Finance Corporation, whose life is limited to six months after the termination of the war except for the purpose of liquidating its assets, proved to be of decided assistance in financing many of the important industries whose work was essential for the vigorous prosecution of the war.

16. *Capital Issues Committee.*—Under the provision of the law creating the War Finance Corporation there was likewise created a committee known as the capital issues committee, to be composed of seven members appointed by the President with the advice and consent of the Senate, three of these members to be likewise members of the Federal Reserve Board. The duty of the committee was to "investigate, pass upon, and determine whether it is compatible with the national interest that there shall be sold or offered for sale or for subscription any issue or any part of any issue of securities hereafter issued by any person, firm, corporation or association, the total or aggregate par or face value of which issue and any other securities issued by the same person, firm, corporation or association since the passage of this act is in excess of

$100,000." The operations of this committee were to continue in effect for six months after the termination of the war unless the President by proclamation dissolved it sooner. Previous to the formal establishment of this committee by law the Federal Reserve Board had created unofficially a committee with similar powers which had established advisory commissions in each of the federal reserve districts of the United States. This unofficial organization merged into the Capital Issues Committee on its organization.

On the advice of the members of the committee itself the President authorized its dissolution on December 31, 1918. It is interesting and important to note as a matter of interest from the social and political, as well as from the financial viewpoint, that even in the days when the patriotic appeal to the loyalty of citizens became so vital as during the height of the war, it became essential not only to regulate for public purposes the direction that investment might take, but also to curb the speculative, not to say fraudulent intents of many promoters by putting their activities under so rigid inspection and control. There can be no doubt as to the advisability of such action in a time of so great an emergency.

REVIEW

Why did the Council of National Defense fail to attain the greatest degree of efficiency in promoting national security during the war?

What complications are apt to arise under the so-called cost plus contract? How were these difficulties kept at a minimum in Government contracts?

What were the functions of the Priority Commission?

What has the emergency of war shown the people of this country in regard to centralization and combination in general?

CHAPTER XIV

WAR CONTROL OF INDUSTRY

1. *Purposes of regulation.*—No hard and fast line can be drawn between regulation of the industries that were intended primarily to furnish manufactured supplies directly to the government for war purposes and those which produce basic raw materials for the support of such industries and the population. Nevertheless it is readily seen that the chief efforts of the government would be directed toward the stimulation of production, the building of factories, the completion of finished products in such cases as the manufacture of shells, munitions, aircraft and others, whereas, in the case of the basic materials such as coal and coke on the one hand and food products on the other, the chief function of the government would be to secure the proper distribution and restriction of unnecessary consumption in order that the supply might be most wisely handled.

The two most striking instances of this type of government control are found in connection with the fuel administration and the food administration.

2. *Fuel Administration.*—The Fuel Administration was created by Executive order August 23, 1917, under the Food and Fuel Control Law of August 10, 1917. The President's powers regarding fuel prod-

ucts such as coal, coke and fuel oils, were vested by him in the fuel administration. The President had authority, which he delegated to the fuel administration, to fix fuel prices, to license dealers, and to punish by revocation of licenses for any violation of the terms of the law or regulations made under the law by the administrator.

3. *Fuel contracts.*—Among the most important general provisions made by the fuel administrator were a series of rules relative to contracts for the sale of coal and coke. Under these regulations a coal or coke operator or producer could make no contract providing for the supply of these materials over a period of longer than one year and this period of one year could not begin later than six months from the date of the contract.

The price of any coal or coke delivered under such contract should not exceed the price at the mine as fixed by the fuel administrator at the date of such shipment.

The contract should itself provide that it would be canceled and have no further binding effect upon either party upon receipt of a request or an order from the fuel administrator for such cancelation, and that, in case of such cancelation, neither party to the contract should be under any further liability to the other thereunder, and that neither should have any claim against the United States by reason of such contract or its cancelation.

Such contract should provide that coal or coke de-

liverable thereunder should be subject to requisition by the United States Fuel Administrator, including under the term requisition the right to divert such coal or coke to any other party than the purchaser named in the contract, and that such requisition might be made at any time during the continuance of the contract; that such requisition might be made at the going government price at the date of shipment from the mine of the coal or coke so requisitioned from the place of production or storage without other or further liability of the government to either party to the contract than the payment of such price and freight, so far as either party might at the time of such requisition or diversion be liable for such freight payment.

Every coal or coke operator or producer or jobber was required to send within ten days of the execution of any contract, a certified copy thereof to the fuel administrator.

Oral contracts were in no case recognized by the administrator valid or binding, and all contracts for the sale of coal or coke were subject to cancelation and termination at any time by the fuel administrator.

Despite these stringent regulations, which were drastically enforced to supply the most immediate needs, especially for the coaling of ships engaged in the transportation of troops or the furnishing of supplies either to the United States army abroad or to the Allies, it proved to be impossible to meet at all adequately the pressing needs. The difficulty was partly due to the enormous demand for all kinds of products,

partly to the almost unprecedented cold weather of December, 1917, and January, 1918, which greatly increased the demand and at the same time made much more difficult the handling and the hauling of coal and coke.

4. *Factory closing.*—In consequence, in January, 1918, the Fuel Administrator issued an order providing for the absolute closing of all factories, business houses and places of amusement for ten successive Mondays beginning January 21, 1918, with, of course, numerous exceptions, such as drug-stores, to prevent some of the greatest hardships.

This order was rescinded February 14, 1918.

The fact that there was practically no warning given in advance and little time for preparation or understanding caused great confusion in many particulars and lessened somewhat the effectiveness of the order. Nevertheless, there can be no question that on the whole much coal was thereby saved.

5. *Gasoline saving plan.*—To accomplish a similar result in connection with the use of gasoline, the Fuel Administrator in September, 1918, issued a request to the owners of automobiles not to make use of their cars, except in cases of absolute necessity such as emergency calls for a physician, for a series of Sundays thruout September and the first Sunday in October. Altho this suggestion came in the form of a request instead of an order it was practically universally observed by the owners of private cars and thereby an enormous temporary saving of gasoline

was effected. It is interesting to note that the request was practically as effective as an order indicating the loyal spirit of the great mass of the population in time of emergency, and likewise the overwhelming pressure of public opinion upon those whose inclinations were otherwise. In numerous cases in the cities when people were apparently violating the spirit of the request, they became objects of such derision and contempt on the part of the populace that they soon withdrew from the public streets.

6. *Coal and coke licenses.*—On the 15th of March, 1918, dealers in coal and coke were requested to secure licenses and rules were issued for the direction of the licensees. These licenses covered in much the same way as the previous orders regarding contracts had done, all questions of price, of commissions, of people to whom sales might be made, of proper detailed information to be furnished to the Fuel Administrator, of the keeping of records and similar matters. In order that the rigid control exercised by the agents of the fuel administration might not be abused, such agents were forbidden to divulge or make known in any manner except as directed by the administrator or by a court of competent jurisdiction, any facts or information regarding the business of the licensee with which he might officially become cognizant.

7. *War and non-war industries.*—One of the most striking and important measures taken by the fuel administration was to secure detailed information regarding the industries of the country so that they

might be classified as war and non-war industries and that provision might be made for coal or coke to be furnished to the various industries in accordance with the relative service that they might render to the success of war enterprises. The attempt was also made by a voluntary agreement by non-war industries to reduce their production sufficiently to bring the probable output of coal for the year 1918 into balance with the known requirements. After such an agreement was reached, the Fuel Administrator was to enter a formal order making the restrictions agreed upon legal and binding in the entire industry. Such restrictions might take the form of a reduction of hours, a reduction of lines manufactured, the elimination of new lines or designs, improvement in management, or the transfer of the product of the plant from a non-war industry to a war industry.

Orders were issued covering a number of lines of industry, such as box-board, paper-board, binder-board and other products made from wood pulp, waste paper, jute root and so forth. Such industries were prohibited from burning fuel of any description from seven o'clock in the morning of Saturday of each week until seven o'clock in the morning of Monday of the next week.

Manufacturers of common building brick were restricted to 50% of the average annual amount of fuel consumed at such plant during the period from January 1, 1915, to January 31, 1917, with certain exceptions. Somewhat similar orders with similar excep-

tions, covered the manufacture of paving brick, roofing tile, terra cotta, sanitary ware and so forth, tho the limit of production was 85% instead of 50% as in the other products.

Florists were required to reduce their fuel consumption 50% during the year beginning July 1, 1918, with an exception for the growing of plants for transplantation to produce summer vegetables.

Another noteworthy provision, effective with the beginning of the coal year, July 1, 1918, was the establishment by the fuel administration of a system of zones affecting all bituminous coal except coal for railroad fuel and coal moved on inland waterways. An embargo for rail shipment was laid upon every district to carry out this provision.

In these various ways the Fuel Administrator attempted so to regulate the production and distribution of this basic material as to promote the military activities of the government to the utmost while affecting unfavorably the ordinary comfort and welfare of the population as little as possible. Despite the numerous criticisms of the drastic nature of many of the restrictions, which was normally to be expected under such conditions, there is no doubt that the purpose contemplated in the Act was to a marked degree attained. As a result of the armistice, practically stopping the war, the Fuel Administrator rescinded virtually all rules for the distribution of fuel and the control of prices—effective February 1, 1919.

8. *Food administration.*—The Food Administra-

tion was created by Executive order August 10, 1917, under the provisions of the Food and Fuel Control Law of the same date.

In most respects the law and the practice of the Food Administration follow the lines already indicated in connection with the work of the Fuel Administration. The Food Administrator licensed dealers in food commodities; required reports of their stocks; acted itself as a purchasing agent for food products both for export and import; revoked licenses of dealers violating the terms of their license or engaging in forbidden practices, such as hoarding, wasting and so forth. Special provisions were made covering the operation of cold storage warehouses, of elevators, warehouses and other places for the storage of grains or various kinds; regulating the importing and manufacturing of numerous commodities such as wheat, oats, rice, soya beans, milk, canned goods of various types, poultry, eggs, fresh fruits, vegetables, sugar and so forth. Of course numerous exceptions were made in specific cases. Particular regulations also covered the production and sale of certain products of great importance in war industries such as arsenic, ammonia, sulphate and the like.

Likewise the Food Administration controlled many products essential to the successful carrying on of certain lines of business necessary to the general welfare of the community as well as to the success of the war, such as fertilizers and farm equipment, machinery of all kinds for farm use, and other materials indi-

rectly affecting food products such as fermented beverages.

9. *Grain corporation.*—One of the most noteworthy acts of the Food Administration was the provision for the creation of a corporation to be known as the Food Administration Grain Corporation, to purchase, sell and distribute grains in behalf of the Food Administration both for domestic use and for export. The governing board of this corporation consisted of seven members, four of whom, including the Food Administrator, were named by the President, the remaining three by the incorporators, subject to the approval of the President.

10. *Sugar committee.*—A committee with similar powers, international in character, with two foreign members and three American members, was provided for the control of foreign sugar by purchase and sale, while another associated committee regulated in detail the distribution of the domestic sugars, with practically absolute control of its purchase and distribution, thus determining the demand and fixing the price. Tho prices were generally made by agreement, practically, of course, they were the result of dictation. The sugar committee had as one of its chief duties the direction and regulation of the export of sugar to the chief Allies. The sugar committee in Great Britain acted as the supply agents not only for their own country but also for France and Italy. Practically the entire sugar output of the world came thus under the control of this international sugar com-

mittee, excepting only the countries which were inaccessible like Russia and those under the domination of the Central Powers.

11. *Response of the public.*—In a more striking manner even than was manifested by the Fuel Administration, the power of direct appeal to the loyalty and good judgment of the American people was shown by the Food Administrator. Repeatedly, the Food Administration published a frank statement of the conditions, both abroad and in the United States, regarding certain classes of food such as meats, oils, grains and so forth. Accompanying such statements was a request that people abstain from the use of certain kinds of meats on certain days of the week, of wheat bread on other days. Requests were likewise made regarding the use of butter, of milk and other products.

With these requests went also in many instances very helpful suggestions regarding proper substitutes, the food values represented by the different products and the normal effect upon the health of the population of a wise regulation of diet. With very rare exceptions, the American people responded to these appeals cordially and the effect was probably nearly as great as if the matter had been regulated by compulsory legislation.

Of course these appeals were given added effectiveness by the direct control over dealers by means of licenses and the actions taken by railroads in the administration of the dining cars, by hotels and restau-

rants almost universally regarding the supplies that should be furnished to customers. Sugar, butter and bread were doled out in small amounts under strict regulation. The sizes of portions were cut down (without the price for such reduced portions being in any way lessened); the quantity of sugar, flour and other products that might be purchased from dealers at any one time was strictly limited, and other similar provisions assisted the good will of consumers in meeting these requests. So frequent were these suggestions and so marked was the effect produced that the Food Administrator's name came into common use as a verb to "Hooverize," without apparently any feeling of annoyance or resentment on the part of the great mass of the people.

In addition to these direct measures the Food Administration also determined what constituted a just, reasonable and fair profit. They determined what had been the normal average profit which persons engaged in the same business and place had obtained prior to July first under former competitive conditions in order to fix what a just, reasonable and fair profit should be under the war conditions and to take such steps as were necessary to prevent profiteering by charging too high prices for products. Despite numerous complaints of these restrictions and doubtless many individual evasions, the carrying out of the provisions of the law, both as regards the maintenance of the quality and the kind of supplies furnished individual consumers, met with remarkable success.

12. *Labor in the war.*—Naturally, at the outbreak of the war many questions affecting the demand and supply for labor and the relations between workmen and employers took on new aspects and assumed new proportions. Attention has already been called, in Chapters VI and VII, to the general principles of labor legislation in times of peace and to certain initial measures also taken in time of war.

The advisory commission to the Council of National Defense, thru its Committee on Labor, presenting the workmen's point of view, and thru its committees on production such as the Aircraft Production Board and the Shipping Board, presenting the employers' view; the War and Navy Departments themselves thru the Ordnance Division, the Quartermaster's Department and others, soon recognized the danger and complexity of the problems affecting employers and workmen. Early in the war representatives were sent to Great Britain and France to make studies of the way in which those countries had met similar problems. And, at the invitation of the Committee on Labor, certain labor delegates and British officials connected with production departments visited the United States to give the results of their experience to our Government and to interested employers, workmen and public men in various parts of the United States.

The committee on labor of the Council of National Defense, with the approval of the council, in April, 1917, issued a statement suggesting an approved policy for labor relations during the period of the war.

Herein it was said: "That employers and employes in private industries should not attempt to take advantage of the existing abnormal conditions to change the standards which they were unable to change under normal conditions." There arose almost immediately a difference of opinion between employers and workmen as to the exact significance of this statement. Employers generally took the position that hours of labor in various establishments prevailing at the beginning of the war should be changed only when, in the opinion of the Council of National Defense, it was necessary to meet the requirements of the government. Furthermore, they laid especial emphasis upon the "closed or open" shop, believing that any attempt on the part of the workmen to unionize a shop during the war period was contrary to the spirit of the statement, or any attempt to raise wages except those normally concurrent with an advance in the cost of living, was likewise contrary to the spirit of the statement. The labor unions laid especial emphasis upon the advanced cost of living; upon the necessity of maintaining the standard of living and the danger of exploitation and profiteering on the part of employers.

The President, the Secretary of War, the Secretary of Labor, especially, but likewise the government in general worked in harmony with the union leaders, altho the Secretary of Labor emphasized strongly the opinion that the Department of Labor did not represent trade unions or the interest of organized labor any more than the interests of all workmen.

Numerous strikes took place in various parts of the country, hampering to a very considerable extent the necessary rapid development of the war industries. To restrict and to prevent as far as possible such movements, the Department of Labor immediately urged an increased appropriation for the development of their agents who were acting as conciliators and in case of request as arbitrators in the settlement of labor disputes. Furthermore, as soon as appropriations could be secured the Department of Labor developed an employment service on a large scale with the view of ascertaining labor needs in war industries and developing the resources of the service in endeavoring to supply such needs. This employment service in the Department of Labor worked in harmony with representatives of various state councils of national defense who likewise established local employment bureaus, and with the Department of Agriculture which had also made a careful study and was taking active measures to make provision for the supply of farm labor.

13. *Various labor committees.*—Aside from the Department of Labor, several of the different government production agencies established commissions or committees to prevent or settle labor disputes.

A cantonment adjustment commission was created by agreement to settle labor differences arising in the construction of cantonments, aviation fields and storage warehouse facilities.

In the Ordnance Department certain men were appointed to give their special attention adjusting dis-

putes that might arise. A national adjustment commission was provided for the purpose of conciliation and adjustment of wages and labor conditions in the loading and unloading of vessels. A saddlery adjustment commission was created by agreement for similar purposes in factories of contractors of the government making harness and saddlery.

By joint agreement between the War Department and the Navy Department, a similar commission was created for like purposes in government arsenals and navy yards.

14. *Shipbuilding Labor Board.*—One of the most noteworthy of these commissions arose in connection with the work of the Shipping Board and the Emergency Fleet Corporation. The building of ships was a matter of so vital importance to the prosecution of the war that it was felt that strikes here must if possible be avoided. After various attempts had been made at mediation or conciliation, it was finally agreed that there should be appointed a shipbuilding labor adjustment board, representing employers, workmen and the public, to investigate all such questions that might arise in this field and to make suggestions really comprehensive, not only as to wages, but also as to hours and working conditions, and as far as possible to make suggestions that might become standard over a large extent of territory. One of its first important rules was that it would not "tolerate any discrimination either on the part of employers or employes between union and non-union men."

After the taking over of the railways by the government a railroad wage commission was created consisting of the Secretary of the Interior as chairman, of a member of the Interstate Commerce Commission, of the Justice of the Supreme Court of the District of Columbia, and of William R. Willcox of New York, former chairman of the Public Service Commission, to act for the railway administration in all questions of labor and its compensation.

15. *National War Labor Board.*—Most noteworthy of all perhaps has been the organization and administration of the National War Labor Board. This grew out of an act of the Secretary of Labor, who was also a member of the Council of National Defense. After detailed conferences with the chairman of the committe on labor of the council, with the chairman of the National Industries Conference Board which represented a very large number of the leading employers of the United States engaged in war industries, and others, he invited the National Industrial Conference Board and the American Federation of Labor each to name five representatives and each group to nominate one representative of the public to meet in an effort to formulate a program of industrial relations. This Board met and after several weeks conference presented a plan for the establishment of a National War Labor Board, and recommended also the principles which should be followed by this board in the adjustment of labor disputes.

The Secretary accepted the recommendations and appointed the members of the committee itself as the members of the National War Labor Board, whose appointment was confirmed by order of the President, the board thus becoming an official organization.

The board consists of five representatives of employers, five representatives of workmen, and two chairmen, representatives of the public. Each group of five having selected one chairman, these chairmen preside on alternate days and are coordinate in authority. Should the members of this Board fail to reach a decision in any case they are to choose an umpire by unanimous vote. If such choice cannot be made, the name of the umpire is to be drawn by lot from a list of ten suitable disinterested persons to be named for that purpose by the President of the United States.

So far the board has been able to reach its decisions without the appointment of an umpire.

The purpose of the board is to mediate and to conciliate; to provide committees or boards to sit in various parts of the country; to take initial action with the right of appeal to the board itself. The board appoints an executive secretary and whatever clerical force and agents are necessary for the satisfactory performance of its duties.

The main principles to be observed may be briefly summed up:

There should be no strikes or lockouts during the war.

The right of workers to organize into trade unions and to bargain collectively is recognized and not to be denied or interfered with in any manner whatsoever.

The right of employers to organize is similarly fully recognized and affirmed.

Employers are not to discharge workers for membership in trade unions nor for legitimate trade union activities.

The workers are not to use coercive measures of any kind to induce persons to join nor employers to bargain with them.

No interference in industries is to be made during the period of the war to change union or non-union conditions, tho labor unions may be formed or may be joined without penalty.

Established safeguards and regulations for the protection of health and safety of workers are not to be relaxed.

If it becomes necessary to employ women on work ordinarily performed by men they must be allowed equal pay for equal work and must not be allotted to tasks disproportionate to their strength.

The basic eight hour day is recognized as applying in all cases in which the existing law requires it. In all other cases the question of hours of labor shall be settled with due regard to governmental necessities and the welfare, health and proper comfort of the workers.

The maximum production of all war industries should be maintained and methods of work and operation on the part of employers or workers which operate to delay or limit production or which have a tendency artificially to increase the cost thereof should be discouraged.

Measures are to be taken by the Department of Labor to

mobilize and distribute the labor forces of the country in the most effective way possible, with the cooperation of the trade unions, the state employment bureaus and federal agencies of like character and the managers and operators of industrial establishments.

In fixing wages and all conditions of labor, the wage scales and the labor standards should be adjusted to local prevailing conditions.

"The right of all workers, including common laborers, to a living wage is declared in fixing wages. Minimum rates of pay shall be established which will insure the subsistence of the worker and his family in health and reasonable comfort."

The need for this board is shown by the fact that during the six months from April 6—October 6, 1917, there was a loss of more than six million and a quarter production days as the result of strikes. The Department of Labor reported 171 strikes in the month of September alone involving 147,349 persons with a labor loss of more than a million work days.

It is also noteworthy that in this country apparently the same ends have been accomplished without legislation which in Great Britain were effected only by vigorous legislation. The War Labor Board in this country has no legal authority to compel the acceptance of its policy or methods or the enforcement of its awards. Moreover, in Great Britain from 80 per cent to 90 per cent of the war industries were highly unionized, whereas in this country only slightly more than 10 per cent of the establishments were union shops. It has been most encouraging to note that the

recognition of a common obligation to the national defense during the period of the war supplied a fairly satisfactory substitute for the exercise of public authority. Too high praise can hardly be given to the leading representatives of labor and of capital for the spirit in which they have cooperated to bring about this result.

16. *War Labor Policies Board.*—In addition to the organization mentioned above, there was created an interdepartmental board called the War Labor Policies Board. This board was composed of representatives of the Labor Department, the War Department, the Shipping Board and Emergency Fleet Corporation, the Department of Agriculture, Food Administration, War Industries Board, Navy Department, Railroad Administration and Fuel Administration. It acted as a clearing house for problems of departmental policy with respect to labor questions. It had of course, officially, no direct dealings with employers and employes in connection with their disputes altho certain members of the Board, it is reported, offered to act as mediators in connection with certain labor disputes.

17. *Committee on Public Information.*—Owing to the war necessity of a careful selection of news and the furnishing to the public of information on important subjects in connection with the war, and also at times the promulgation of definite views of the Administration, there was established on April 24, 1917, by executive order of the President, a Committee on

Public Information, composed of the Secretary of State, the Secretary of War, the Secretary of the Navy and a civilian executive member who was made chairman.

This committee published "The Official Bulletin," a daily periodical containing public statements and official announcements of various types made by different departments and bureaus of the government. It likewise had printed in several languages and distributed both at home and abroad, leaflets and pamphlets concerning war and its activities. It also organized a very large corps of public speakers and lecturers who for the same purposes delivered addresses in all parts of the country. A moving picture bureau likewise formed part of the organization. This produced a number of patriotic films with the purpose of affecting public sentiment and it also made an extensive selection of films of an informational character as well as of many of merely an entertaining character to be employed for similar purposes.

18. *Welfare work.*—Aside from this work of the Committee on Public Information, under the direct auspices and direction of the War Department, the Y. M. C. A., Knights of Columbus, Salvation Army and others were recognized as organizations to promote especially the welfare as well as the morale of American soldiers both in the camps and cantonments in the United States and in the field abroad.

The Y. M. C. A. particularly was entrusted with the establishment of canteens to furnish refreshments at cost, by agreement with the War Department. Some of the other organizations, while given somewhat similar powers did not have the restrictions and agreements regarding price.

The Y. M. C. A. was also entrusted by the War Department with the entertainment of the soldiers by means of moving pictures, actors, actresses, lecturers and various other instructional and amusement specialists. After the signing of the armistice it was also given the direction of a most extensive educational administration of the soldiers not engaged in active war work.

Along somewhat similar lines among the soldiers at home and in connection with the adjacent communities has been the work of the War Camp Community Service, organized and largely controlled by the War Department for the purpose of creating and maintaining the best morale among the soldiers. However, this work has been carried on without expense to the War Department and mainly with the cooperation of voluntary workers in the adjacent communities.

19. *Vocational training.*—Somewhat more formal and official is the Federal Board for Vocational Education. This was established under the Act of February 23, 1917, with an appropriation of approximately $2,000,000, to be matched by an equal appropriation from the several states and to be used for promoting

vocational education in trade, industry, agriculture and home economics.

Altho established for general purposes in times of peace as well as in times of war, the work of this board has developed special courses suitable for the industrial training of men in the army. For example, there were bulletins for training conscripted men for service as radio and buzzer operators in the United States Army; for emergency training in ship building; for mechanical and technical training for men in the air division; for vocational rehabilitation of disabled soldiers and sailors; for emergency war training for motor truck drivers and chauffeurs; for electricians; for telephone repair men, cable splicers; for gas engine and motor car repair men and many other similar types of activity. It is expected that this board will undertake on a large scale the re-education of disabled soldiers and sailors, acting with the medical departments of the army and navy.

REVIEW

How did the regulation of the purchase and sale of fuel help bring the war to a successful issue?

Will the division of industries into essential and non-essential industries made during the war affect after-the-war production?

What great lesson has the Food Administration taught the American people?

Ought the War Labor Board, or some such Board, to be made a permanent committee for the arbitration of all labor disputes?

What was the chief function of the Committee on Public Information?

CHAPTER XV

READJUSTMENTS TO PEACE CONDITIONS

1. *An unexpected peace.*—About the first of November, 1918, the war conditions had changed so materially that an ending of the war favorable to the Allies was anticipated. Until nearly that date, however, it had been generally expected that the war would last nearly or quite another year; but the Germans so suddenly yielded that on November 11 the armistice was signed on conditions so stringent that it amounted practically to unconditional surrender on their part. This sudden coming of peace surprised most of the Allies, but it found the government and people of the United States as totally unprepared for peace as about one and a half years before they had been unprepared for war. Great Britain and France had some two years before appointed committees to study the problems of readjustment to peace conditions, and such committees had already reported plans. It is well known that Germany also had almost from the beginning of the war been making plans for peace, altho most of the time her anticipations had been of a peace favorable for her and for her plans of world domination. But the United States, altho the House Commission had been for many months making special studies with reference to a peace conference, had made

practically no careful studies with reference to the readjustments of business and government to peace conditions.

2. *The difficulties of readjustment.*—The problem of a readjustment to peace conditions is, in many respects, more difficult than that of a rapid preparation for war. In the latter case the government becomes the one chief buyer of war materials and supplies of all kinds. Speaking broadly, the army officers under rules carefully worked out by military experts, can figure out the war demand for a given number of troops of the various divisions of the army under named conditions with great exactness, so that it is possible to calculate almost month by month what the demand will be and the points at which supplies must be delivered.

Moreover, the question of credits is eliminated. The question of price falls into the background. The government can pay whatever is necessary or in lieu of that, whatever the government officials are willing to pay.

Again, the government, by virtue of its sovereign power, without waiting for negotiations may commandeer goods, machinery, manufacturing plants, transportation agencies of all kinds, even labor and the services of business men and corporations.

The readjustment to peace conditions is opposite in character and infinitely more complex. Instead of one buyer, the business men have to search out new buyers because their old customers have been lost.

They have to estimate or learn by experience, often sad, the demand which they can supply in the face of competition until then unknown. They have to learn by experimenting what prices can be obtained under new and shifting conditions. They must examine credits of their customers under circumstances so complex and new that the factors are largely unknown. Moreover, during the period of the war conditions of manufacture have been largely changed. Factories readjusted to the manufacture of munitions, largely increased in size, must be refitted for the production of peace supplies, or, in many cases, must be scrapped. The credit conditions have changed. From a debtor nation laboring under the necessity of making large payments abroad which would normally stimulate exports, the country has become the largest creditor nation, with a regular financial balance of trade so strongly in its favor that in order to avoid unsettling exchange conditions either our foreign trade must decidedly shrink or the country must make large foreign investments and extend long time credits abroad. Labor conditions likewise have been revolutionized. The war demand for labor, the inflated prices increasing greatly the cost of living, have driven wages far above those of times of peace, and an effort again to lower them is likely to cause strikes and labor difficulties of serious nature. So many and varied and complex are these changed conditions that some points deserve more careful study.

3. *Prices.*—In the discussion of movements of gen-

eral prices over any considerable period of time one needs to take into account both sides of the problem. The price of any goods is the expression of the value of those goods in terms of money. It is therefore a ratio, and this ratio may be changed by anything which affects either the money side or the goods side of the ratio. Anything, therefore, that affects either money on the one hand or the goods on the other as regards demand or supply will change the ratio and thus affect the price.

Since the outbreak of the war there has been a very large increase in the quantity of gold, the basic money, in this country. Again, as prices are determined not only by the quantity of money in circulation but by the work that that money has to do, the various devices by which the basic money has been more efficiently used have tended to lessen its relative value still more and thus to increase prices. The concentration of the gold reserves in the Federal Reserve Banks and the ready issuing of federal reserve notes thereon has been one factor; the great extension of our government's credit, the extension by our government and by our bankers of credits to foreign governments for war purposes are other factors; while the deliberate stimulus of the use of acceptances and other commercial paper make still other factors, all of which have tended to make the basic money more efficient and thus practically to produce inflated prices. According to the best index numbers in this country and abroad since 1913, there has been an increase in aver-

age prices of 100 per cent in round numbers, a large part of which increase may be ascribed to the shifting conditions affecting money and its use.

On the other hand, in many prominent lines of industry there has been a very greatly increased demand for goods, which tends in the same direction. Nor can we forget that aside from the question of demand and supply which, unless restrained by governmental action, ultimately fixes prices, the cost of production enters as a basic factor ultimately determining the minimum price. In this cost must be considered naturally the labor cost, fixed by wages and the efficiency of the labor itself. Both wages and efficiency have been affected materially by war conditions. The government has increased wages probably somewhat more readily than many private employers would have done, and the stimulus of patriotic feeling has doubtless likewise in many cases improved the efficiency of labor. In time of peace, when prices become competitive, if they lower materially there must be a readjustment of wages to lower levels or there will be a necessity for closing many establishments. It is doubtful also whether the efficiency of labor will continue at the same standard unless new methods of dealing between employer and workmen can be placed on a basis more satisfactory to both parties than existed in pre-war times.

The steel industry gives us some illustrations of increased demand. Before we entered the war the total pig iron production of the country in 1915 was 29,-

662,566 tons. In 1917 and 1918 it was 38,185,981, and 38,272,430 tons respectively. Even with this large increase in output the increase in prices was more than enough to correspond. Altho the government fixed the prices for steel, as compared with the pre-war level of prices in 1914 there was an increase of some 300 per cent for the eight basic steel products ordinarily used to give an average price. The highest average price touched by the eight products in July, 1917, was $119.69 per ton. The government price fixing schedule was $74.77, to be contrasted with an average price of $108.97 just before the War Industries Board fixed the price. The highest mark ever attained under pre-war conditions was that of $40.68 per ton in 1907.

If we ascribe 100 per cent increase to the effect of money, it still leaves an increase of more than an equal amount to be ascribed to the enormously increased demand for the product itself.

For years before the war we looked upon one dollar a bushel as a very high price for wheat. Under a price-fixing regime the farmers have been guaranteed $2.20 for 1917 and $2.26 for 1918, part of this price again being doubtless due to conditions affecting money and to the increased demand; for without the fixing of prices by the government wheat would doubtless have soared to three dollars or much higher at special times.

With the coming of peace, however, there must be a rapid readjustment. It is expected that from our

European Allies there will probably be, for some months at any rate, a demand of an entirely different type. Doubtless for a year or two the European crops in the war-devastated countries will be less than normal. The demand for food stuffs will probably be greater for a year at least on account of the large number of troops from this country, from India and from some other of the fighting powers. Large quantities too of iron, steel, cement and other raw materials will be needed for rebuilding razed homes and re-establishing factories. Just how great these demands will be, and to what an extent the supply must come from the United States, is as yet a most uncertain factor, and this complicates again the question of prices. Certain it is, however, that many prices will fall. The Steel Corporation has already lowered its basic price by some four dollars a ton. The price of many food products, such as butter, eggs, meats and vegetables of various types, has already dropped in many of our cities, partly on account of the canceling of orders from abroad, and partly on account of accumulated supplies in anticipation of future needs. But the shifting of the credits also from government to private buyers has doubtless in many cases affected prices from the monetary side, tho it is of course impossible to determine the relative extent of the two influences.

4. *Foreign exchange.*—One very important factor affecting the readjustment of business and one which many believe should be considered seriously by the

government with reference to positive action is that of foreign exchange. Before the war America, as a debtor country, needed to make large payments of interest on our obligations held in foreign countries. Now, as a result of the great credits extended to foreign governments, of the repurchase by Americans of American securities formerly held abroad, and of the taking over of securities from some foreign countries in payment of goods sold and credits advanced, there will be due to security holders in the United States annually an income of probably some $500,000,000 a year which must be met by foreign debtors. We cannot accept payment in gold, first, because the countries cannot conveniently spare the gold and, secondly, because we have more than we need for our business. The government has now raised the restriction on the export of gold, and it is being exported abroad as from time to time the demand comes for it.

In what form is it wise for us to receive the $500,000,000 due to us—an amount that seems likely also on account of the necessary further demand for our goods to be on the increase for some years to come? If we do not take the gold we can, of course, take the products of those countries so far as we need them and they can spare them; but from present indications we are likely to export more goods than we shall need to import. We should receive this pay either in the form of foreign government securities or of the bonds or other credit instruments of foreign municipalities

or corporations, or we could continue extending credit in other forms. In very many cases probably the wisest way for us to receive those payments would be to purchase outright business establishments and business enterprises of various kinds and to re-invest in those foreign countries themselves the income from these investments. This would be done with especial advantage, perhaps in the relatively undeveloped countries, such as China, Russia, the Balkans, Turkey, South America and Central America. It would be desirable for the Americans to build railways, street railways, electric plants of various kinds, to open and work mines, to develop agricultural resources of various sorts, and to increase our services to all those countries thru the employment of our own American-owned and managed merchant marine? Such use of our capital and such investment of our income in the relatively undeveloped countries would be the best form of receiving payments both for our business men and for the interests of the foreign countries concerned. For our business men those enterprises built and managed by Americans, so far as that can be done, would yield a larger return on the capital invested than the interest on bonds of the same industries with the stock owned and the enterprises managed by the foreigners themselves. This same method of procedure would also furnish a larger market for American manufactured materials and supplies for the building and working of the enterprises in question. And this again would tend not only to improve

the business conditions in our country but would tend likewise to reestablish reasonable rates of exchange between America and the countries concerned.

Such procedure would be better for the countries concerned since the large amount of capital investment would enable the natural resources to be much more rapidly developed than would otherwise be possible. With this development would come increased demand for the local labor and a normal increase in wages, an added demand for the native products of the country both as raw material and as food and supplies for the workmen and industries. Besides that, and a matter of perhaps even greater importance, it would give to those countries the benefit of highly trained business management and the introduction and use of the newest and best machinery and business methods anywhere known. Probably also the largest part of the profit accruing from such enterprises would be reinvested in the countries themselves, thus increasing still more rapidly the process of development.

Our own great Middle West and western states were developed in this way by capital invested by the English, the Germans, the Dutch, the French. Had it not been possible for Americans to secure this capital thus invested, our own resources would have been developed much less rapidly, and in the stress of this war period we should not have been able to respond with anything like the same degree of success that the last four years have witnessed.

5. *Shipping.*—In the same way, while our energies

were devoted to developing our natural resources, and while what capital we could secure could be invested to advantage in the development of our home resources, it was cheaper and wiser for us to employ the merchant marine of Great Britain, Germany, Holland, France and other countries, where ships could be built at less cost, and especially where they could be manned at rates which, if accepted by American sailors, would lower our standards of living. Now that the conditions have changed and we apparently are able to build and own our own merchant marine and even perhaps if necessary in order to stimulate our manufacturing industries and to promote our trade and investments abroad to manage this merchant marine even at a loss, paid in part by the government in the form of special contracts or subsidies, it is best for us to retain our own ships and to supply that service at reasonable rates to the countries where our investments are made. It will likewise be a service to them as well as a security for ourselves.

6. *Foreign travel.*—Large foreign investments by Americans and the normal desire of people, especially those who have felt the hampering influence of war conditions, to travel are likely to give a marked stimulus to foreign travel by Americans. Probably the next three or four years will see a very large increase in such travel beyond that ever known before. Travelers abroad normally spend much money, and this money carried abroad or credits paid out abroad will

probably be a factor not so large as foreign investments, but large enough to be readily noticeable in the balancing of obligations due to this country by foreigners.

7. *Labor.*—Many persons believe that the labor problem is likely to be the most puzzling of all during this period of readjustment. During the war, partly on account of the increasing cost of living, partly because of the necessity of a very large output with little regard for cost, wages have increased enormously.

The employers, partly because of the profits accruing from more orders, partly because from patriotic motives they were unwilling to see production lessened, partly because the government's sympathy and influence tended in the same direction, have readily and promptly increased wages.

The government itself, in its arsenals and in all other places where it became necessary to employ labor outside of army men, has readily granted recognition to the trade unions, and as we have already seen, has increased wages liberally. The President personally, as well as the Secretary of War and the Secretary of Labor and the government railway administration have all worked sympathetically with the American Federation of Labor and the railway brotherhoods. All this has doubtless given organized labor a standing stronger than that possessed before.

As was shown in Chapter XIV, thru the work of the National War Labor Board and the other committees organized by the Government or thru its in-

fluence for adjustment of labor disputes, the sympathy and harmony of action between employers and workmen have been very greatly stimulated during the war. No one who has talked seriously with representatives of the larger employers or the labor leaders during the last few months can have failed to note a marked increased friendliness of tone in both sides as well as an increasing readiness to see the other's point of view and an increased respect for the good motives and good character of the other party.

Now that peace has been attained and the industries are rapidly returning to a peace basis and direct negotiations must begin again between the workmen and the employers, often without the direct intervention of government, there is good reason to believe that this better feeling will continue, and that there will be a greater degree of reasonableness and an improved spirit of tolerance on both sides which will go far to prevent grave labor disputes.

It is natural and entirely proper that the workmen should wish to maintain the standards of living that have been attained during the war. With falling prices, however, it is essential that they should distinguish clearly between real wages and money wages. Otherwise their employers will be put in an impossible situation, and unemployment resulting in a forcible marked reduction of wages will be the inevitable result.

During the war in numerous instances when a basic wage had been agreed upon there was paid in addi-

tion a cost-of-living bonus adjusted from time to time to the varying, usually increasing, costs of living as shown by carefully compiled index numbers in the leading financial and commercial papers. It is clearly fair and I believe that this will be justly recognized by the workmen that a similar process of readjustment should be followed in times of peace, and that as the cost of living decreases the wages may be readjusted thereto, so that tho money wages fall, the standard of living will be maintained.

Unless some such method is followed, the coming of peace is likely to result in strikes, unemployment, disorganization of industry, and industrial depression. However, we may hope for a spirit of reasonableness, a readiness to cooperate thru collective bargaining, and a clear insight into industrial conditions. If both employers and workmen are frank with each other and recognize existing conditions as they affect each we may look for self-restraint, for sacrifice if need be, and a willingness to continue work temporarily, till adjustments have been effected. In such cases the difficulties of readjustment can be overcome without panic or industrial disorganization.

If the spirit of loyalty, tolerance and mutual respect can be continued, the readjustment can be successfully made.

8. *Immigration.*—Conditions in Europe indicate an inclination on the part of large numbers of the population there to emigrate to the United States. Labor conditions here are certain to be very complicated with

the return of many hundreds of thousands of workmen to reenter our industries whose places have to a marked extent been taken by women and others formerly not engaged in industry but now unwilling to leave their jobs. Unless our working men are protected for a time at least against an influx of immigrants the difficulties will be greatly increased. Later it is probable there may be a real shortage, especially of unskilled labor, if the immigrants are entirely excluded.

Congress has had under consideration a bill to exclude immigrant labor for a period of four years and afterward to limit it rigidly on a basis of a percentage of immigrants to the naturalized members of that race already here. Some such provision, even tho this seems somewhat drastic, is eminently desirable and will quite possibly be made later.

9. *Moral considerations.*—The considerations hereinmentioned have been for the most part, economic in their character. It is probable that in the long run the influence of the war will be greater from the intellectual and ethical side than from the economic, altho such intellectual and moral influence is likely to be markedly reflected in business as well as in broader social conditions.

Any one who has observed the soldiers either in Europe or on their return, or who has followed carefully in the periodical press and in books their European experiences, cannot fail to have noted how remarkable has been the stimulus to their intellectual

activity, how broadening the experience upon their outlook on life, how strengthening the influence upon their moral, as well as their physical development. The fact that some of them may have had experiences contrary to our accepted social standards of morality or that some of them may have acquired personal undesirable habits in no way vitiates the good influence. In practically every instance it has been greatly broadened and enlarged. This change is bound to be reflected in our industrial, political and social life here.

It has just been intimated that we need a broader, more just spirit in dealing with the labor question. That is true. It is probably also true that men who have faced death for months in the trenches in many cases will find it very difficult to readjust themselves personally to what will seem the tame life of normal industry; and yet with the stronger nature developed, and with the overwhelming influence of rapidly developing habits this readjustment in the large majority of cases will be peacefully brought about on a basis higher than existed before. What applies to labor problems applies also to social problems of all kinds.

Men who have devoted themselves either here or in the army abroad to the service of the country, unselfishly and energetically, are certain to take up their tasks in a new spirit. It will be much easier for them than it would have been without this experience, to realize that the spirit of successful business is also the spirit of service, that no business can attain to its high-

est success unless the idea of service to patrons, customers and the community is kept steadily in the foreground.

Moreover, the continual facing of responsibilities and danger thru a period of months, the continual association with officers and men trained in the ideals of military honor, where truth-telling and sincerity is prominent, cannot fail to affect favorably in the same way the business ideals of fair dealing and trustworthiness.

So, too, we may expect from those who have been compelled to bear, and have willingly borne the hardships and responsibilities of active service a still readier acceptance of the responsibilities of business. They will act more independently, more tolerantly and with greater determination to carry thru to success whatever they undertake, and to work with others in team play under proper discipline, than would have been possible in pre-war days.

These ideals, these personal characteristics, these habits of working and living are the basic principles of business as well as the principles of democracy for which they feel that they have been fighting. If the war has helped to develop this spirit in the people of this country, it has fully reimbursed its costs, tremendous as they have been.

REVIEW

What is meant by the statement that we are "unprepared for peace"?

What, beside the law of supply and demand, caused prices to advance so tremendously in the last two years ?

What is the easiest and wisest method of receiving payments for the huge credits we have extended to foreign countries?

What brought about the increased friendliness between employers and workmen during the period of the war? Is this spirit of friendliness merely temporary?

What do you think about the immigration question? Ought we to exclude all immigration for a number of years, or restrict it, or go back to the pre-war conditions?

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